HIGH-TECHNOLOGY OPPORTUNITIES FOR HISPANICS

HEARING

BEFORE THE

SUBCOMMITTEE ON ENVIRONMENT AND LABOR

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED FIRST CONGRESS

SECOND SESSION

WASHINGTON, DC, OCTOBER 3, 1990

Printed for the use of the Committee on Small Business

Serial No. 101-82

U.S. GOVERNMENT PRINTING OFFICE

35-168 WASHINGTON : 1991

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

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HIGH-TECHNOLOGY OPPORTUNITIES FOR HISPANICS

WEDNESDAY, OCTOBER 3, 1990

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON ENVIRONMENT AND LABOR,
COMMITTEE ON SMALL BUSINESS,
Washington, DC.

The subcommittee met, pursuant to notice, in room 2359–A, Rayburn House Office Building, Hon. Esteban Torres (chairman of the subcommittee) presiding.

Chairman TORRES. Good morning ladies and gentlemen. I think the time has now arrived that we should begin the proceedings.

I want to, first of all, welcome all of you to the House Small Business Subcommittee on Environment and Labor, of which I am the chairman. I am joined this morning by Mr. Jorge Haynes, who is the staff director of the subcommittee, on my right, and of course members of his staff.

We are also joined by relevant Members of the Congressional Hispanic Caucus, the organization that is represented by Members of Congress who are Hispanics, apart from the 50 some other Members of the caucus who have Hispanics in their districts.

We have Margarita Roque, the executive director, and Mary Rendon, the staff assistant in the caucus with us today.

I sponsored a House resolution, 2 years ago, to commemorate Hispanic Heritage Month from September 15th to October 12th. As many of you know, it was Hispanic Heritage Week.

September 15th is a time of celebration for several countries in the Americas from Mexico to Central America and South America. Heretofore, we often celebrated Hispanic Heritage Month around the time of the Mexican Independence celebrations, and often we left out so many of our other sister republics who also gained their independence around the same time. So, really, the month is able to collectively speak to those celebrations of liberation that ensued in the freedom from European colonialism.

October 12th, when the celebration ends, when the month ends, commemorates the day that Columbus sighted land and discovered—I say discovered advised y—America. The Indians were lost. I mean, they'd been here some thousands of years before that, and they knew they weren't lost, so they weren't really discovered. Nonetheless, Columbus is credited with opening up the whole new world.

This Hispanic Heritage Month commemoration is a time, really, to reflect and to project as well. Reflect on the contributions that

Hispanics have made over the last 498 years, the first half of the millennium, and to then project on how we can contribute the next 500 years, the second half of the millennium.

As an aside, let me tell you that I am one of the original cosponsors of Irish Heritage Month, which is authored by Congressman Manton of New York, and I'm also the cosponsor of Polish Heritage Month that's authored by Representative Gerald Kleczka. I do this because I believe it's important for us to celebrate and commemorate our varied ethnic and national origins and the many contributions that so many people have made to the building of this Nation.

Yesterday, we were in large debate over immigration legislation that has come on the floor. We'll be voting on that legislation today. You cannot imagine, and perhaps some of you can if you watched the proceedings of the debate yesterday, the kind of divisive situation that we often find ourselves in, people taking to the floor yesterday denouncing any effort at new immigration policies as something that is dangerous to the Nation, something that is intended really to create, as I said yesterday on the floor, just a bugaboo. It's an effort to install fear in people, that by the United States accepting more immigrants, or having a reformed immigration policy is somehow dangerous to this country.

Nothing could be further from the truth, and, as statistics and demographics show, in the next years that will ensue, our Nation is going to need additional immigration just simply to allow this Nation to survive in the economic stream, in the world marketplace. But there will be people, as there were yesterday, and you'll hear some today, who protest and fight, and will find ways of not having the kind of enlightened immigration reform that we should have.

Today, we'll hear from national Hispanic organizations and minority contractors as to how the Federal Government is helping minority small businesses participate in this so-called American dream, the dream to start up a business, and running the gamut of problems from access to capital, to risk-taking, and meeting operating costs is part of that American dream.

It's not easy to start a business, and it's even more difficult to succeed once you've started one up. However, we must continue our pursuit of the goals and targets for small disadvantaged businesses in the Federal agencies. The Federal Government is still, ladies and gentlemen, the largest purchaser of goods and services, and the largest employer, I might say, of engineers, scientists, and other people in this country.

As such, the Federal marketplace is the largest point of entry for minority and small businesses. The downsizing of the defense budget and the things that are to come because of events in Eastern Europe will have an impact.

Peace is going to be difficult for our Nation, but it shouldn't be painful. As we begin to downsize the defense aspects of this Nation, we can find new opportunities to engage our workers, our skilled minds, to engage in those new types of endeavors, economic and otherwise, that can make and continue to keep our country great. So, we'll have some difficult times ahead, but I think, if we pull together, we can overcome the situation.

Our history shows that when the economy falters, and you know this, the small business sector and the minority businesses suffer disproportionately, and that is what we want to avoid. We want to avoid that very painful process.

This morning, we'll have people talking about that process. The first panel will give us a national perspective of where we stand on these questions.

Before we go into the first panel, I wanted to allow my colleagues, who are not here yet with us, Solomon Ortiz, Congressman from Texas, and Congressman Jose Serrano from New York, to make opening statements. I'm sure they'll come in later. The Members are probably now engaged in various congressional endeavors this morning, but they'll be joining us from time to time, and we'll allow them at that time to either make statements or enter their statements into the record.

At this time, I would like to call forth the first panel which is going to speak to us this morning. I will call them in this order: Ms. Margarita Colmenares, the president of the Society for Hispanic Professional Engineers. Ms. Colmenares, if you would take the table here.

We also will have with us Mr. Robert Paral, the research assistant to the National Association of Latino Elected Officials, NALEO.

Last, we will have Mr. Albert Jacquez, the president of the Latin American Management Association. He's not with us yet. We understand he's one of the ones who is tied up in traffic, so we'll wait for his late arrival.

In the meantime, we should begin our hearing, and I call upon Margarita Colmenares to begin her statement. I would say to you that your statement will be entered into the record in its entirety the way that you provided it for us.

You may wish to summarize your statement.

TESTIMONY OF MARGARITA H. COLMENARES, NATIONAL PRESIDENT, SOCIETY OF HISPANIC PROFESSIONAL ENGINEERS, INC.

Ms. COLMENARES. Thank you. Good morning Congressman Torres and other distinguished members of the audience. I am Margarita Colmenares, national president of the Society of Hispanic Professional Engineers, SHPE, pronounced "ship." We are a national volunteer organization of Hispanic engineers and scientists with over 130 professional and student chapters across the country. Our goal is to increase the number of Hispanic students, graduates, professionals, academicians, and entrepreneurs in the engineering and science fields.

Volunteers nationwide participate in a continuum of SHPE-sponsored activities such as our ACE Program [Advancing Careers in Education] where we influence young people in elementary and junior high schools to consider careers in engineering and science. Our scholarship and tutoring programs support university and community college students who are pursuing degrees in engineering and science.

On the other end of the spectrum, we encourage engineering professionals to become entrepreneurs in the high-technology area.

SHPE has been a catalyst in establishing technology exchange and partnerships with Mexico and Latin America through our international engineering and trade conferences. Through our efforts, the Society promotes engineering and science in the Hispanic community.

Over the years, our Nation has evolved from an agrarian, to an industrial, to a technological society. With each of these changes has come a demand for a more sophisticated work force capable of higher order thinking skills. According to Department of Labor statistics, by the turn of the century, we expect a 40-percent increase in engineering, technical, and scientific positions, and only a 4-percent increase in jobs requiring manual dexterity and less academic ability.

Our community's access to well-paying and challenging jobs in the future will depend on our level of math and science literacy. Our ability to improve our economic base hinges dramatically on our level of educational attainment and the type of education we obtain. Education is the key to world leadership, yet we are not keeping up. In international mathematics achievement tests, we placed 11th out of 13 in calculus, and 12th out of 13 in algebra.

As a Nation, our economic leadership and competitive strength are under siege. In recent years, we have become painfully aware of competition from abroad in markets previously dominated by U.S. manufacturers. Today, I would like to focus on why it is absolutely essential to the economic well-being of this country that the Hispanic community participate in the high-technology arena.

Small business is widely believed to be highly innovative and responsible for many of the new products and processes introduced into the economy. One such example was the development of the user-friendly computer, the Macintosh, by Steve Jobs of Apple Computer, whom we all know started in his garage. The creation and growth of small, high-technology companies will contribute to the Nation's ability to develop and implement new technologies. There are too many examples where the United States has developed the technology, only to license the technology to a foreign country, which then, in turn, sells the technology back to us in the form of laser disk players, video recorders, and video cameras.

For decades, the Federal Government has tried and implemented countless programs to integrate members of minority and disadvantaged groups into the mainstream of our system. Yet, the results are not encouraging. Over 90 percent of the newly created small minority business enterprises and women business enterprises fall in the nonhigh-technology category, while startup businesses in the high-technology category comprise 10 percent at best.

Those companies that venture into these areas are confronted with the complexities and the idiosyncrasies of dealing with a very complex bureaucracy. The paradox is that those who can comply with the Federal rules, complexities, and requirements are the ones who need the help less than the ones that the system by definition serves.

The situation is further worsened by the fact that the largest client of engineering services is not fulfilling its mandate. According to a recent NALEO report, Hispanic 8(a) firms received less than 6 percent of the total contracts let by Federal procurement.

By law, Congress set aside 5 percent of all Federal contracts for minority 8(a) firms. But Federal agencies are not the only ones undercontracting with Hispanic firms.

To cite an example, let me mention the case of EDS in Texas, a subsidiary of General Motors, and ATCI, a Hispanic high-technology startup firm in Dallas, Texas. Upon learning of EDS's capture of a major Federal contract, ATCI approached EDS with a capability statement, obtained MBE certification, and implemented policies and procedures to meet and exceed EDS requirements.

A visit was promised to the ATCI site in mid-September, but EDS never showed up nor bothered to contact ATCI with any explanation. So, ATCI made some substantial investments to meet EDS contracting requirements, but were denied the opportunity to bid on any work for EDS.

High-technology is sometimes described as high risk for the following reasons. A high-technology manufacturing firm is capital intensive, requiring sophisticated equipment to produce the high-technology product. Quality control procedures and measurement standards must often be created for brand new products. Then, there is no guarantee that the product you developed as a prototype will, in fact, be reproducible on a mass-production basis.

On the other hand, a high-technology service firm is less capital intensive, but is more labor intensive. For example, in order to prepare a technical bid for a $5-million contract may require $30-$50,000 worth of engineering and administration cost to submit the proposal with no guarantees of winning the contract.

Currently, the majority of 8(a) Hispanic high-technology firms are involved in ADP, automatic data processing, and very few Hispanic firms are involved in cutting-edge technology. One exception is Applied Sciences Laboratory, based in Albuquerque, New Mexico. Under the leadership of Dr. Richard Jimenez, president, this 6-month old company is a research and development company which develops spacecraft technology for the U.S. Air Force.

One of Dr. Jimenez' concerns is the future enforcement of the SBA requirement of requiring 2 years of contract history before a business qualifies for the 8(a) Program. Businesses which are certified as 8(a) contracts are allowed to compete for contracts which are set aside for 8(a) competition. Small startup disadvantaged businesses such as Applied Sciences Laboratory are excluded from competing on 8(a) set-aside procurements. The startup phase is often the most difficult for new businesses, and it seems that the benefits of the 8(a) Program would be of most benefit during this period.

In addition, exclusion from 8(a) competition further compounds the difficulties a small, startup, disadvantaged high-technology firm faces. Although there may be some very good reasons for the 2-year contract performance period, perhaps an alternate certification might be allowed for those companies deemed technically competent to perform the work of a particular contract.

The development of leading-edge technical challenges has traditionally been undertaken by university research centers or large, highly qualified contracts. The aerospace industry requires the development and integration of sophisticated technologies and the

use of numerous technical specialists. Currently, the participation of small disadvantaged businesses, SDB's, has been negligible.

Small, high-technology R&D firms face further disadvantages because research and development are expensive activities that require firms to commit substantial resources over extended periods of time, and to assume the risk should the investment not prove profitable. The National Science Foundation has a modest grant program to encourage small technology firms to conduct innovative, high-risk research on important scientific and technical problems that could have significant public benefit if the research is successful. Yet, we are not aware of any significant grant money to high-technology firms in the Hispanic community.

In lieu of reading the rest of the testimony, let me just summarize what I consider to be the three main areas of opportunities. I've given you kind of an overall view, but I do see some opportunities on the horizon in the 1990's.

The first area is that of environmental consulting for mitigation and remediation. Over the last decade, this industry has grown to over 20 billion in revenues per year. I think that, as environmental issues continue to gain importance in the international arena, there's going to be an opportunity for the United States to sell its expertise to other countries, but we need to have enough environmental expertise developed here in the United States if we're going to go abroad and sell it as well.

The second area of opportunity is technology exchange and partnerships with Mexico and Latin America. Again, SHPE has been a catalyst in bringing together small business people here in the United States with our counterparts in Mexico and Latin America to establish partnerships in the high-technology area.

The third area of opportunity, and the one that has the biggest payout in terms of U.S. global market competitiveness, is the transfer of technology from the Federal Government to private industry. Our national laboratories like Sandia, Los Alamos, Fermi, are some of the world's most elaborate research centers, and there are tremendous opportunities for entrepreneurs who can act as transfer agents to determine if it is appropriate to transfer a certain technology to market, and at what price, and on what timetable. If we don't take our research discoveries to the market, our foreign competitors are more than happy to do it for us.

To help stimulate the development of Hispanic-owned, high-technology firms, we have several recommendations, as follows:

Item one, establish a requirement that all Federal agencies and recipients of major Federal contracts compile data on the dollar amount of contracts that are let to Hispanic-owned firms and what percent of the total this represents. Every agency should be held accountable for the 5 percent mandated by law.

Item two, subcommittee hearings such as this should continue on an ongoing, periodic basis to assess progress or lack thereof.

Item three, this committee should request a study by the Office of OMB to review the overall statistics for Hispanic employment and procurement in the Federal agencies.

Item four, support SHPE proposals, such as America One that has been submitted to the National Science Foundation [NSF] as a nationwide and collective education program designed to inform

and motivate students, parents, and teachers so as to increase the number of engineering graduates in the Hispanic community.

Item five, the Small Business Innovative Research Program [SBIR] Act of 1982 required major Federal agencies to set aside 1.25 percent of an agency's research budget for SBIR. NSF, DOD, DOE, and all of the major agencies should be encouraged to include Hispanic R&D firms for SBIR funding. At the present time, there is no data collected that would tell us the percent of Hispanic-owned firms which have received funding.

I have other recommendations, but for time I'm going to go ahead and enter them written.

Chairman TORRES. Without objection.

Ms. COLMENARES. Our participation in the high-technology arena implies that we are a player on the field. In a global competitive market, it makes sense that we have as many U.S. players on the international field to compete with our economic competitors. Yet, in reality, the Hispanic community has only been issued a uniform, and we're sitting in the dugout. The next Fernando Valenzuela could be sitting in the dugout right now in East L.A., or the next Jose Conseca could be sitting out in some ward of New York. We need to use all of our available resources, and treat every potential player as the most valuable player.

In summary, 30 years ago, this country made a commitment to put a man on the moon. The Federal Government passed the National Defense and Education Act which poured money into our schools to promote science and foreign language competency. That legislation was partly in response to our race for space with the Soviets.

Now, we need a similar commitment from the Federal Government in order to produce a work force qualified to fill the increasing number of technical positions in the labor force. This time, it is not only a matter of national pride, but rather a matter of economic survival for the United States.

This concludes my testimony, and I thank you for the opportunity to share our thoughts and concerns with you on the status of high-technology firms.

[Ms. Colmenares' statement may be found in the appendix.]

Chairman TORRES. Thank you, Ms. Colmenares, for what I would deem a very excellent statement for our subcommittee. I'm sure the audience and my colleagues who are joined here will also concur with me. We will accept your entire statement, as I said, into the record. I'm glad you were able to summarize, and we will get back to you with some relevant questions about your testimony as we will with Mr. Paral.

But before we do that, I would like to acknowledge the presence of a dear colleague of mine who has entered and joined the subcommittee here. He's also a member of the Small Business Committee, Mr. Serrano, who is one of our newest Members of Congress, hailing from New York. At this time I would like to yield to him for an opening statement.

Mr. Serrano, welcome. Thank you for being with us.

Mr. SERRANO. Thank you, Mr. Chairman. Sorry for being a little late. As you know, the phone calls are coming into our offices, both in New York and here, as I'm sure is the case with you, telling us

what a wonderful budget this is, and why we should all be crazy about it.

Thank you, Mr. Chairman, for the opportunity to join the Small Business Subcommittee on Environment and Labor today to discuss high-technology opportunities for Hispanic business people. As a Member of the Congressional Hispanic Caucus, I commend you for your attention, past and present, to the abilities and needs of the fastest growing segment of the population of this great United States.

I see so much potential for growth and development in my district's business community. We must take every step possible to insure that this potential is realized. So many of our young college graduates have the ability and knowledge to become successful entrepreneurs, creators of jobs and services in their communities. I hope that the result of this hearing would be to expand business opportunities for people with the ability to take advantage of them, and to make more people aware of existing opportunities.

My district in the South Bronx, as you know, statistically is, unfortunately, the poorest district in the Nation. There are so many small businesses that would benefit from the advances and technology that are taking place all of the time.

Mr. Chairman, I am delighted to have with us today one of my constituents, Mr. Luis Castro-Ortiz from the Bronx Venture Corp. The BVC is a nonprofit, community-based, economic development corporation working to attract, retain development, and expand job intensive industry in the South Bronx.

My district desperately needs this kind of commitment to combine community development with economic development. Mr. Castro-Ortiz is here today to share with us some of the ways in which we can help Hispanic business people to develop successful business ventures in a supportive and profitable business community. I want to thank you, Mr. Castro-Ortiz, for coming today. We look forward to hearing your comments, as I do hearing the comments of so many of you who are here today involved in what we know is a very difficult struggle.

So often, we all take interest in how difficult it is for an athlete in our community to make it through the ranks, and we know how difficult it is for a police officer to be promoted to sergeant, or for a teacher to become principal. Therefore, when we see the business community people say "Well, they're into money, so they're doing well," and we don't sometimes make the public fully aware of all the difficulties. I may add that the public will never understand how difficult it is—out of 435 congressmen, just a few of us. I just thought I'd get that in for the record. It's really an honor to be with you, Mr. Chairman.

Chairman TORRES. Thanks for joining us, Congressman Serrano. You're already establishing a remarkable record in joining us here on Capitol Hill. We look to many years ahead in your working with us, and your constituency, and your community. It's very important.

We hope you can stay with us as long as you can, and we understand if you have to leave why you have to leave. Perhaps you can join us in querying our two first witnesses. But, before we go to Mr. Paral, let me also welcome and acknowledge as I did the Members

of the Congressional Hispanic Caucus here on Capitol Hill, let me also recognize Ms. Rebecca Nudecker, who is the Senate Hispanic Task Force representing Senator Bingaman. Rebecca, thank you for being with us.

Ms. Renee Alvarado, who is with us here, also. She's with the Hispanic Task Force on the Republican side representing Senator Hatch. May I say that Senator Bingaman and Senator Hatch have been very instrumental in assisting us in various aspects of small business appeals. We're glad to have you with us this morning.

At this time, I would like to recognize Mr. Paral, who represents NALEO. Would you please proceed, and, as I told Ms. Colmenares, your statement will be entered into the record in its entirety, and you may wish to summarize.

TESTIMONY OF ROBERT PARAL, RESEARCH ASSOCIATE, NATIONAL ASSOCIATION OF LATINO ELECTED AND APPOINTED OFFICIALS [NALEO], ON BEHALF OF HARRY PACHON, NATIONAL DIRECTOR

Mr. PARAL. Thank you very much.

Chairman TORRES. I understand you have documents as well as a visual?

Mr. PARAL. I have submitted a copy of the testimony, and I also have a research report that I would like to submit to the committee.

Chairman TORRES. Without objection, so ordered.

Mr. PARAL. Thank you very much. My name is Robert Paral. I'm a research associate with the National Association of Latino Elected and Appointed Officials, NALEO. I am presenting testimony this morning on behalf of Dr. Harry Pachon, our national director.

During my testimony, I will discuss what is referred to as the 8(a) Program. As you know, the 8(a) Program was established by section 8(a) of the Small Business Act to assist minority-owned business enterprises in acquiring Federal procurement contracts.

This program has increased over the years in dollar amount, until in 1989 it brought more than $1 billion into Hispanic-owned firms in the United States, and involved 800 plus Hispanic contractors registered with the Small Business Administration. I will, indeed, summarize my statements, and we'd like to share with you four points related to the 8(a) Program. This, by the way, is a program that NALEO audits each year to look at the progress of Hispanic firms.

The first point that I would like to bring to your attention is illustrated on the table we have here. This is a ranking of Federal agencies, and the percentage of all their procurement contracts which are devoted specifically to Hispanic 8(a) contractors, and I will draw your attention at first to two agencies. You'll note that the State Department devoted fully 5.8 percent of its procurement contracts to Hispanic-owned 8(a) firms.

Nearly at the bottom of the table you have the Energy Department devoting merely 0.2 percent of its contracts to Hispanic 8(a). Now, Hispanic firms, in essence, pay a very dear price for the Energy Department's low utilization of 8(a). If you notice the total contracts of the Energy Department, they are the second largest

Federal procurer, and by having such a low level of 8(a) utilization with Hispanic firms, it proportionately costs us a lot.

For example, every 10th of 1 percent of Energy Department contracts that do not go to Hispanic 8(a) firms represents a loss of $17 million to Hispanic firms. On this theme of large Federal agencies not procuring at a level we might wish they would with Hispanic 8(a) firms, I would draw your attention to the Defense Department, which devoted 0.5 percent of all of its procurement contracts to Hispanic firms, which was a 10th of a percent lower than the overall Federal average.

Now, if the Defense Department had met the overall Federal average of 0.6 percent that would have brought $138 million more to Hispanic 8(a) contractors in the United States.

The second point I would like to make with you this morning also refers to agency participation in 8(a), and something that we find in our audits every year is that not only is there a discrepancy between the major agencies and the rate of utilization of 8(a), but from year to year there are significant fluctuations within agencies.

I'll just share with you some statistics. Going from 1988 to 1989, you will see, in our audit, that the Department of Health and Human Services jumped by 33 percent in its Hispanic 8(a) utilization, and at the State Department there was nearly a tripling of Hispanic utilization. However, we also have significant declines at other agencies. Again, at the Energy Department, the second largest Federal procurer, we saw a 50-percent drop in utilization of Hispanic 8(a) firms. At the Department of Justice during the same period, 1988 to 1989, Hispanic 8(a) contracts dropped by 63 percent.

The third issue I would like to share with you refers to trends in what at NALEO we like to refer to as the large Latino States, the nine States that comprise over 90 percent of the Hispanic population in the United States. We, in our most recent audit, looked at the dollar amounts of Hispanic 8(a) going into contractors in these States during the 1980's, and what we found are some serious discrepancies between the success rate of different States in receiving Hispanic 8(a) dollars.

I would share with you that in four States, Colorado, Florida, New Mexico, and Texas there has, indeed, been a significant dollar increase in Hispanic 8(a) during the 1980's, whereas three States, California, New Jersey, and Illinois, have seen relatively moderate increases. However, I would also note significant, very steep declines in Hispanic 8(a) dollars during the 1980's going to the States of New York and Arizona. The decline in Arizona equaled a two-thirds drop in Hispanic 8(a) dollars from 1988 to 1989.

An even more precipitous decline has occurred in the State of New York. To give you an example of the magnitude, in 1989 Hispanic 8(a) contracting in the State of New York was only 13 percent of what it was 4 years earlier.

I will move now to my fourth and final point that I would like to share with you. Recently we decided to gauge the relationship between Hispanic 8(a) dollars coming into a Latino State and the level of Hispanic business activity occurring in that State. We, in essence, compared Hispanic 8(a) dollars per Latino business.

For example, that calculation would show you that in Florida in 1989 you're receiving about $800 of 8(a) contracts per Latino business, whereas in Colorado you have a sum that's 2,000 percent of that, $16,000 per Latino-owned business. Actually, relatively low amounts of 8(a) dollars per Hispanic business are seen in precisely those States with the largest numbers of Latino-owned businesses.

For instance, California, Texas, Florida, and New York are the top four States in terms of the numbers of Latino-owned businesses, and it is these same States that have the lowest ratio of Hispanic 8(a) dollars to Hispanic businesses.

I'll conclude my presentation by going very briefly over the four points I've shared with you.

Number one, we find relatively low award levels in Hispanic 8(a) at some of the largest Federal procurers, such as Defense and Energy.

Number two, we find significant yearly fluctuations in these award levels at various agencies from year to year.

Number three, we see very disparate trends in the amount of Hispanic 8(a) dollars going into the States where the Latino population is found.

Number four, finally, we find discrepancies among States regarding the ratio of 8(a) dollars per Hispanic business. Thank you very much again for this opportunity to share our report with you, and we look forward to assisting the subcommittee in its investigations.

[Mr. Pachon's statement, presented by Mr. Paral, may be found in the appendix.]

Chairman TORRES. Thank you Mr. Paral, for your very concise and excellent analysis of this program area and what is happening and the trends that are taking place. We will probably get back to you with some relevant questions about this issue.

I gather, in using your visual, the trends that you were citing are apparent in this visual?

Mr. PARAL. The trends are another aspect. However, everything I've spoken about today is included in our 1990 audit of 8(a) contracting which has been submitted for the record.

Chairman TORRES. I'm going to advise our Members here, our audience, that we have been advised that there is a pending vote on the floor of the House of Representatives. We have a 15-minute alert on this. We have 15 minutes to get there and vote.

We have a few minutes before we get the second bell. In order not to lose the presence of our good colleague from New York, Mr. Serrano, I'm going to ask him at this time whether he might have a question to ask of the two of you. Mr. Serrano.

Mr. SERRANO. First of all, does NALEO keep figures for the Commonwealth of Puerto Rico?

Mr. PARAL. We have that data available. I have not analyzed it personally.

Mr. SERRANO. OK. It would be interesting, if you could, to submit to us whether that's been an increase, a decline, or what.

Mr. PARAL. Certainly.

Mr. SERRANO. Not only in view of the fact that it's a very Hispanic part of the country, but second, the fact that they're in the process of determining how they want to go in the future, and I'm

sure that could make a part of the argument, at least, to supply it to them as to what's going to happen there.

To what do you attribute the drop in New York?

Mr. PARAL. I would attribute, in general, low levels of 8(a) contracting to perhaps a couple factors. Number one, I would have a question, how aggressively is the local SBA office trying to do its job which consists of linking up Hispanic 8(a) contractors with the Federal procurers?

I have spoken with Hispanic 8(a) contractors in recent days who have told me that they are assigned to what are known as business opportunity specialists, and have often expressed the sense that these individuals are not aggressively trying to link up contractors with the procurement agencies.

Mr. SERRANO. One last question, and, of course, the question could be asked of Ms. Colmenares also, and that is, are there organizations geared to representing you at these levels?

Ms. COLMENARES. You mean with the SBA, or with whom are you speaking specifically?

Mr. SERRANO. Within the business community. In other words, he presents to us facts that show a problem. You're presenting to us a problem. We are agents for change, and that's what the chairman is trying to do. But amongst yourselves, are there organizations other than the local chamber of commerce or whatever that may be involved in making the point of the unfairness that Government is being involved in here.

Ms. COLMENARES. I believe we're going to hear from LAMA later on this morning. That would be one example. The U.S. Atlantic Chamber of Commerce would be another.

Mr. PARAL. I would agree that those two organizations have been a significant voice in expressing these concerns.

Mr. SERRANO. Do the States that may be doing better have organizations locally? Is that lobby on behalf of the local businesses?

Mr. PARAL. They may. However, I think we're also looking at the question of the SBA, which works through regional offices. I would be interested to know what is the composition of the SBA employees at different districts, their Hispanic representation. Is that representation fair throughout the agency to have that kind of a balanced view throughout the SBA, which is really the key of linking up the Hispanic firms and procurers.

Mr. SERRANO. My questions, and I'll just be brief, are geared toward trying to find out if some areas may be doing a little better, not that we're happy with any of these figures, even for those areas that are doing better, but are they doing better because there is some local political involvement, or they are more organized in asking for this assistance, or is New York totally somewhere in the northeast and not populated businesswise. They may have people organized. That's what I'm trying to find out from you, if you have any of that kind of information.

Mr. PARAL. I do not literally. I would say that some would be more actively involved than others.

Mr. SERRANO. Thank you.

Chairman TORRES. Mr. Serrano, while you're still with us, in your opening statements to the witnesses you alluded to data on Puerto Rico and you indicated its future path. Could you, for the

committee and for the witnesses, just briefly in a thumbnail sketch, describe what you meant by that and what is happening? I think it would be important for the committee and the people here to know.

Mr. SERRANO. Well, hopefully, Mr. Chairman, by next week the House will take up a bill, the Puerto Rico Self-Determination Referendum Act, which for the first time in the history of the 92-year relationship between the United States and Puerto Rico since the invasion of 1898—as you know, Puerto Rico, no different than the rest, was a Spanish colony from 1893 to 1898, and then from 1898 to today it is, at the minimum, a territory. I get in trouble when I call it a colony, but that's what it is.

So, next week, a bill will be taken. For the first time, the bill clearly respects the three options, and the three parties, and the three constituencies that say that independence is a legitimate option with a legitimate constituency, statehood, and an expanded and an enhanced commonwealth. Now, that has great significance to all of us Hispanics. If Puerto Rico becomes a State, it will have seven Congressmen and two senators, the only State to have nine representatives all of one ethnic group. I mean, this would be unheard of.

If it becomes an expanded commonwealth, it will get parity with other States and get into an issue of many people fighting in this country as to who is going to pay for it, and all of these horrible thoughts of—you talk about a family, and you say how do we pay for it. Of course, if it becomes independent, it would be an independence as written in the bill, very closely tied at first to the United States with assistance and dual citizenship and so on. What frightens a lot of people is a State that would be a Latin American State. When Alaska became a State, it was mostly populated by people, quote unquote, from the 48 States. When Hawaii became a State, it was heavily influenced by people from the 48 States. However, Puerto Rico would be a very Americanized State, and at the same time, a very Latino State.

So, this is the number one issue in Puerto Rico. It's the number one issue in many Puerto Rican communities throughout the country, and a side issue—since you gave me an opportunity I can't pass it up—is the side issue as the nonresident vote.

People feel that Puerto Ricans who were born on the island, and those born of at least one parent born on the island should have the right to participate, because we feel that this is not an issue about who the Governor shall be or the President if it is a republic, or the senator if it is a State, but about a territory, and since most of us were forced out of Puerto Rico for economic and social conditions of the 1940's and the 1950's and the 1960's, we feel that we have that tie to vote. That is what is happening next week.

Unfortunately, the budget and Saddam Hussein have taken the importance out of the issue that it should have, and I'm hoping that at least the Latino community will realize that for us as a Nation of people, Latinos, there probably is not a more important issue right now, and that is what happens to a place on the map—incidentally, which would be the 50th smallest State in the Union. Only Rhode Island would be smaller. But it would be the 24th largest congressional delegation, and that itself is a problem. How

many States are willing to vote for a place which they out-size in area 100 to 1, but that would have 5 or 6 more Congressmen than they have? That's a serious problem.

So, that's the issue. Stay tuned. It's as important to all of you who are not Puerto Rican as it is to those of us who are Puerto Rican.

Chairman TORRES. Thank you, Mr. Serrano. As you can well tell by the picture that is painted, this has very important, far-reaching, positive ramifications, and I don't see any negatives. I think they're all positives, but it was important for you to understand.

At this time, I would like to take a brief recess while Mr. Serrano and I go to vote on an immigration bill. We are adjourned momentarily.

[Recess.]

Chairman TORRES. Thank you for being so patient and allowing us to go vote. Some of our other colleagues were advised that we're in this hearing session, and they'll be trying to join us shortly.

We ought to move expeditiously, because we'll be having another vote come up probably within a half hour, so we'd like to call our panel number two up to the table in this order: Dick Otero, the president of RJO Enterprises, Mr. Otero, will you come up?

Jack Priester, president of Armstrong Data Services, Luis Castro-Ortiz, the Bronx Venture Corp., Peter Theobald, Comprehensive Technologies, Inc., and Ms. Renee Montoya with CTA, Inc.

Is Mr. Fernando Niebla, the president of Info-Tech here?

He is not here with us.

Let me take the presenters in this order by having CTA go number first, and followed by RJO. So, at this time, we'd like to hear from Ms. Montoya.

As I've told everybody, and you probably heard me initially, but it's always good to repeat it, we will enter into the record your entire statement. It will be printed that way, along with any documents that you may wish to present as well. If you could, summarize your statement so that we would have more time to allow for questions.

Ms. Montoya, you may begin.

TESTIMONY OF RENEE MONTOYA, MANAGER, CORPORATE HUMAN RESOURCES, COMPUTER TECHNOLOGY ASSOCIATES, INC. [CTA], ON BEHALF OF CARMELO E. (TOM) VELEZ, PRESIDENT AND CHIEF EXECUTIVE OFFICER

Ms. MONTOYA. Thank you. I'd like to thank the committee for inviting us to be here. Dr. Velez is out of the country this week, and has asked me to speak on his behalf.

I would also like to begin by saying, and I won't read my statement in its entirety, we chose to do a biographical statement for Tom by way of introduction to the subcommittee. We've just recently moved our corporate headquarters here to Rockville, Maryland, and we hope to become very heavily involved in this issue, although we have graduated from the 8(a) Program 2 weeks ago.

Chairman TORRES. Good. Congratulations.

Ms. MONTOYA. Thank you very much.

Chairman TORRES. You're moving from where?

Ms. MONTOYA. From Colorado. Our corporate headquarters was in Colorado, and we're now located in Rockville.

Chairman TORRES. Welcome to the neighborhood.

Ms. MONTOYA. Thanks. I would also like to say, we worked very hard during the 10 years, and we're now 11 years old. We could not have been as successful and grown to an $89-million company without the assistance of Mr. Gilbert Cisneros, who is the 8(a) regional director for region 8. He's an extraordinary person, and he is an advocate on behalf of Hispanic-owned companies, and we could not have done anything without him.

My name is Renee Montoya. I'm the corporate human resources director for CTA, Inc. We're an aerospace engineering firm. We employ about 1,000 people throughout the country and have 13 offices.

Our president is Dr. Tom Velez, who grew up in New York. His parents were immigrants from Ecuador. He had many of the same kinds of adversities that face a lot of inner city children these days, and the way that he really weathered those was by having an unusual talent in music. He was given a scholarship to the Julliard School of Music as an adolescent, and then from there went on to get his BS, MS, Ph.D, and also a JD after that, and is indeed an unusual, extraordinary man.

As I said, we have just recently graduated from the Small Business Administration 8(a) Minority-Owned Set-Aside Small Disadvantaged Program. Our customer base includes the Department of Interior, the Department of Defense, FAA, and NASA. We are an aerospace engineering firm.

Our revenues in 1989 exceeded $89 million, and we're a leader in a number of technology areas, including avionic systems, space systems, simulation systems, and command control communications and information systems, also known as C3I kinds of engineering systems.

We are an extraordinary company because Tom's spirit and his vision really does have to do with excellence and with creating an environment of empowerment within the company. He's a very strong leader, and our company has a very hands-on attitude. I think the discriminator we have, and the reason that people are standing in line to work for us is because it is an extraordinary environment, and Tom really provides the leadership for this to happen.

I think I'm going to forego my statement. I have quite a lot to respond to in terms of some of the earlier questions from Mr. Serrano, so hopefully they'll come up again, and I can contribute. Thank you very much.

[Dr. Velez' statement, presented by Ms. Montoya, may be found in the appendix.]

Chairman TORRES. Thank you very much, and you'll stay with us, and we'll have questions for you.

Our next presenter will be Mr. Richard Otero from RJO. Incidentally, CTA and RJO are the two top Hispanic high-technology companies in the country, so we're happy to hear from them.

Mr. Otero, please proceed.

TESTIMONY OF RICHARD J. OTERO, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, RJO ENTERPRISES, INC.

Mr. OTERO. Thank you Mr. Chairman. My name is Dick Otero.

I'm the chairman and chief executive officer of a company called RJO Enterprises, which is headquartered in friendly, downtown Lanham, Maryland. We were pleased to have the Congressman at an Hispanic engineers' function not too far away from where we were headquartered last evening.

I obviously want to thank you for inviting me to testify before this distinguished panel on a matter which I consider to be of utmost dispatch and urgency to our entire Hispanic community. As the Congressman said, RJO is currently the second largest Hispanic owned high-technology company in the United States. I don't want to disappoint Tom, but we'll soon be the largest this year.

Chairman TORRES. I love this competition.

Ms. MONTOYA. I do too.

Mr. OTERO. It's wonderful, isn't it? I might add, Mr. Chairman, that we're doing it on even ground which is different between us and the Japanese. But we are definitely at the forefront of innovative high-technology, which is important for the 1990's.

We provide productivity enhancement solutions in such areas as telecommunications, information systems, automated logistics, and acquisition support systems, as well as electronics.

I come here this morning to speak as an Hispanic entrepreneur who enjoys the vantage point of having directed the growth of my company from a mere $500 startup 11 years ago to almost the $70-million-plus company that it is today. Within the next few years we'll be close to half a billion dollars.

I have, frankly, grappled for many years with the very issues that this Hispanic Caucus and the Subcommittee on Environment and Labor are addressing at this particular forum. Frankly, it's an unfortunate fact of life that Hispanics have been, and unfortunately continue to be, shut out of technology and engineering professions. This is certainly something I don't have to remind the panel about, because obviously you're making an honest attempt to rectify what I consider to be an absolutely abysmal situation.

But I trust that you and our standard bearers, which I certainly consider all of you to be in Congress, will not really just rely on the trials and failures of years gone by, or even on a time-honored Washington tradition of merely throwing tax dollars at a problem in hopes that the problem will go away.

Now, I may surprise you at this point in my testimony, in fact, by telling you I belong to a minority group that's even smaller than Hispanic engineers. I'm a proud member of an infinitesimal minority, I guess, that would suggest to you that Federal handouts, that bigger grants and expanded budgets are not the remedies that we need to enhance high-technology and engineering opportunities for Hispanics. We have tried those sort of remedies for years, doing the same sort of things over, and over, and over again, and expecting different results. That, I submit most respectfully to this panel, is one of the definitions of a case called insanity.

Further, as we all know too well, this is hardly the time for anyone such as myself to appear before Congress in an effort to

promote programs that would further exacerbate the budget deficit that threatens our entire Nation. Rather, I'm here this morning to suggest a number of positive but long-term ideas for your consideration, ideas that require no new Federal moneys, but which almost certainly would lead to increased high-technology opportunities for Hispanics, which is my mission today.

Of course, each of you are well versed in what I call the alleged 5-percent set aside program, a myth, as we all know, for minority-owned businesses, especially those seeking to work with the Defense Department. We've seen those statistics this morning, at least as it relates to the 8(a) Program. You obviously have to be equally aware that these programs simply are not working, and without significant modifications will never achieve their objectives.

Prime contractors simply do not honor the law of the land in most cases, because Congress obviously has not put sufficiently sharp teeth into the law, and procurement officials are obviously not incentivized to implement the intent of the law. But rather than suggest punitive measures, punitive remedies, which have been what has been bandied about even by my compadres, and the organizations that I belong to and chair, I would suggest Congress enact legislation that would reward, remunerate, and recognize those procurement officials and those select small number of prime contractors who do abide by the law, and who truly do ensure that minority-owned businesses realize their legally constituted share of Government contracts.

This, however, is only one solution to this issue, and it's a solution that addresses the consequences, not the root causes of the statistics we heard this morning that show that Hispanics comprise less than 1 percent of all engineers in this country, a rather abysmal performance. To begin curing the illness rather than the symptoms, we must have several initiatives that are fully endorsed by the Federal Government. Notice I did not say funded.

Congress should enact legislation to provide income tax exemptions, not credits, not deferments, but true exemptions for teachers of the hard sciences in those school districts that have high enrollments of Hispanics and other minorities. Congress must act to establish magnet schools that focus on the hard sciences in areas that are heavily populated by Hispanics, such as California, Texas, Florida, New Mexico, New York, Illinois, and last but not least, I'm sure Congressman Serrano would like to hear this, Puerto Rico.

We obviously don't have to go too far, just cross the river into Fairfax County, to read the success story of such schools as Thomas Jefferson High School for science and technology, which this year produced more National Merit Scholarship winners than any other school in the Nation. It is time to provide that type of stellar education to our young Hispanics who aspire to more rewarding lives in the high-technology main stream of our economy and of our society.

Congress must further address root causes by establishing what I will term life cycle high-technology programs that would encourage Hispanic successes, starting with prenatal care to the day that they enter school, through postgraduate school, to the time that some

foolish people even decide to be entrepreneurs, especially in the engineering and scientific fields.

Such a program, when encouraged by Congress, must combine the best elements of Government encouragement—notice I again did not say funding—and the active involvement and financial support of our universities, our leading industrial concerns, including Hispanic businesses, and our network of philanthropic foundations to provide this solid infrastructure around which success can be built.

Now, congressional action in just these three areas which aim at the very roots of problems we are confronting today would provide comparable incentives for our Hispanic youth to pursue a lifetime of work that returned equal rewards not only to them, but also to our country. I would also suggest to you that a number of initiatives can be taken virtually immediately that would break down the barriers to Hispanic success that have been erected within the Federal Government bureaucracy.

First and foremost, our various Government agencies must adopt what I have termed a corporate success mentality. What is that? We must imbue our Federal mandated programs, such as Public Law 100-656, otherwise known as the 8(a) Reform Act, and section 1207 of Public Law 99-661, which is the DOD 5-percent goal program with the strategies and the sound planning that allow both of these laws to affect the benefits and the incentives that they were designed to accomplish. Currently they do not.

Without such strategic planning, we will continue to see such impediments to success as grossly restrictive size and economic disadvantage standards. We're supposed to be successful, Mr. Congressman, but not terribly successful. Further, I have never seen any company restricted in its ability to raise capital and to finance business operations, with the exception of 8(a) companies, nor slowed by further delays in entering the 8(a) Program.

When I first entered the 8(a) Program, it took me 4 months to do so. My company has since helped other companies be certified, in fact 27 of them, thanks to our fine staff. Some of these companies having waited more than 2 to 3 years to be certified. I guess my Puerto Rican heritage would never tolerate having to wait 2 years for anything, especially after having served in the military, where I stood in line for long times.

But also, Congress must ensure to its fullest ability that such innovative and potentially far-reaching ideas as the Defense Department's Mentor Protégé Program are implemented on the widest scale possible, and without delay. We know how long it took HR-1207 to get implemented. We know that Mentor Protégé Program, if it's implemented this year, probably will not take effect for another 2 years. Can we really put this program on the shelf for 2 years?

Finally, I want to issue a challenge to each of you on this panel, and I'm proud to address the two of you. I wish that more of my compadres were also sitting there. But I'm challenging the Hispanic Caucus, through your leadership and your commitment, which is obvious to me, to your fellow Hispanics to aspire to greater advocacy of these issues that are crucial to our very economic survival as a Nation and, of course, as Hispanics.

I challenge you to ensure that our Hispanic colleagues, like yourselves, aspire to and achieve ever higher levels of responsibility within the Congress. I would like someday to be addressing senators, as in Senator Serrano, and I would like for that to happen sooner than later. I would also encourage that you achieve within every agency within the country suitable Hispanic representation in all the technical departments of the various Government agencies, those of which deal principally with high technology, and we know what they are. Just as I challenge our great universities, some of which I have been fortunate enough to attend, the Stanfords, the MIT's, the Cal Techs, to ensure that their doors are open ever wider to Hispanics who have the aptitude and the desire to learn from our vast storehouses of knowledge without regard to their economic status.

One final challenge—I challenge the members of this panel to devise a system to quantify our efforts and our initiatives, as well as our achievements, to keep score on how we are doing in the Hispanic community, and to tell the world of our successes frequently and openly, as well as some of the issues we face that we heard about this morning.

In conclusion, I am the first to admit, frankly, that much must be done to reverse the appalling lack of opportunities for Hispanics in the various engineering and scientific disciplines. But we are the Nation that landed men on the moon, and we are the Nation that has fostered greater technological advancement in the past half century than in all the preceding years of civilization combined. We are the Nation that is renowned for our innovation, our ingenuity, our creativity, and our capacity for something called caring. It should not be difficult to apply just a small portion of these virtues, these qualities to ensuring that our young Hispanics are able to pursue the dream that is America, that dream that has been afforded to me.

Thank you for this opportunity to appear before you this morning. I would be most happy to elaborate on my suggestions. They are just outlines at this point in time, and to answer any questions that you might have. Thank you so much.

[Mr. Otero's statement may be found in the appendix.]

Chairman TORRES. Thank you, Mr. Otero, for a great statement and a number of great challenges to our colleagues here. We will certainly take your words in earnest. I can assure you that we will be expeditious in doing just that, and we'll come back to you.

Mr. Priester is a constituent of mine, coming from West Covina with Armstrong Data Services. Mr. Priester, you probably heard a buzzer. We have a vote.

Mr. PRIESTER. Yes; I did.

Chairman TORRES. We'll wait till the second bell before we leave, but you may proceed.

TESTIMONY OF JACK PRIESTER, PRESIDENT, ARMSTRONG DATA SERVICES, INC.

Mr. PRIESTER. Very well. I'll make my statement brief, Mr. Chairman. My name is Jack Priester, and I'm the president of Armstrong Data Services. ADS is a new 8(a) company, and I would

like to speak of some of the problems that I've noticed in procuring Federal contracts. I'll just get down to the observations that I've made, sir, and try to give a brief sketch of the recommendation also.

One of the first problems I notice is locating a procurement that may be passed to a competitor because work to be performed is not in your region. The definition of local and national buys should somehow be revamped. A local buy, as I understand now, is product or services utilized in one region, and I think that's really a misnomer.

I find it hard to believe that software that ADS could possibly write for submarines in Jacksonville Naval Base cannot and will not be used in another section or another naval base. Maybe we could use the definition for a national buy to apply to all procurement for professional services over $100,000.

Another observation is the most significant reason for lack of participation by 8(a) and other minority companies in defense subcontracting is that most of us do not have the marketing depth to learn about major acquisitions during the developmental stage when substantial subcontracting decisions are made. Maybe, if there was a program that would allow larger Government contractors to adopt a new 8(a) firm or firms with minimal 8(a) contracts, that could be helpful.

My last observation is, unlike most large contractors, 8(a) companies face continual obstacles in raising capital. Once accepted into the program, obtaining management and additional expertise to market Federal procurements for a substantial period of time is very costly. Maybe if some program could be created where 8(a) companies would joint venture in a system to market Federal procurements while procurements are in the conceptual stage instead of after they're published. Once they hit the CBD, it's hopeless.

If some of these changes could be incorporated, I feel that the program could be great and tremendously advanced. Once again, sirs, I tried to speed through it, but I do thank you for this opportunity.

[Mr. Priester's statement may be found in the appendix.]

Chairman TORRES. Well, I thank you for being expeditious. I think your observations and recommendations are very telling. We're happy to have this, and we're going to come back to you again.

I noticed in your making the observations and the recommendations that Mr. Otero was nodding agreement on some, and I think when we come back maybe we can elicit your like recommendations and observations, Mr. Otero. The rest of you may also do that.

Once again I apologize to you. We have a vote that's on the floor at this time. It's on the Bryant amendment on the substitute bill on the immigration bill. This is a must for us, so I'm going to run over there, Mr. Serrano and I, and try to bring back some more colleagues to listen to these very excellent presentations that you're making, so please excuse us. We'll be right back.

[Recess.]

Chairman TORRES. We've heard from two presenters. We're down to two, Mr. Castro-Ortiz and Mr. Peter Theobald. Mr. Castro-Ortiz, please.

TESTIMONY OF LUIS CASTRO-ORTIZ, BRONX VENTURE CORP.

Mr. CASTRO-ORTIZ. Thank you for having invited me down here, Mr. Chairman. Also thanks to our Congressman Serrano, who we're very proud of.

I must say a little thing about Mr. Serrano and some of the influence that he leaves in our area.

Chairman TORRES. Mr. Castro-Ortiz, would you move your microphone a little closer to you?

Mr. CASTRO-ORTIZ. Fine. Mr. Serrano has been a champion in the cause of the education for the Spanish community. In 16 years in the assembly, he has countless proposed amendments, legislative action to assist in the area of education. I just wanted him to know that finally a lot of his proposals are coming to fruition, and we'll miss him there. However, now we've got Mr. David Rosado who is right behind him.

I'm mentioning education because we're in a period in which we are talking about high-technology, and high-technology is a little beyond the realm of the area that we're in at this particular time. We come from a most impoverished area where the literacy rate is at its lowest.

We have one of the highest dropout rates within the State of New York. We have one of the largest Hispanic populations of which to address.

As noted, my name is Luis Castro-Ortiz. I'm the senior management director for capital investment, and I represent Bronx Venture Corp., which is a nonprofit corporation. Unlike my fellow panelists, we're not a for-profit corporation. What we do is develop venture capital. We provide venture capital. We provide the opportunities for businesses, such as we have in the testimonies that you've heard, so that they can come into the business area and compete effectively.

The request for dollars are, no doubt, no different for us than it is, I'm sure, for the Congress. We've got to identify a source of funding and seek it out.

The Bronx Venture Corp. believes in its community. The 20 years that it's been in the community it has infused business constituents to the tune of almost $300 million. I think it's a forward-looking corporation, and there's a lot more, I'm sure, that can be done.

In testimony to the ability of Bronx Venture, it also spun off a holding company, which is the Bronx Holding Co., and it right now manages a portfolio of about $43 million. So, what I'm saying to you is this, that even in the most impoverished community there is opportunity. Even in the most impoverished community, there is a desire to want to get into the market.

What we need is legislation that will help the venture become a reality, so that I'm here representing the corporation and seeking the attention of Congress in the plight of this new, or the startup of business.

We need a sense of encouragement. I understand in the new budget it does address the need for small business, and there is a fact of credits being given. From what I read, the initial proposal, it sounds like something that's going to definitely benefit my area.

We can go on and on, and I wish I'd had some demographic reports to give you, and that will follow if you will allow. Again, we don't have the high-technology industry. Of the three considered high technology, we have one which is an ADP system that seems to be the most flourishing within our community. Then we all know about the Wedtech situation, and that we ourselves are total controllers of the company shares of the Base Metal Fabricators.

In our area, we're stripped of any high-technology type of industries, although our needs are the greatest for such an entity. I bring back to my community the attention and call for this need, in the hopes that some of the companies that I come across and network with would consider exploring high-technology areas.

I understand that Mr. Kemp has, in fact, been allowed to receive his design enterprise-owned concept, and I know that South Bronx is targeted for that. That is going to help us tremendously. We need the infusion of enterprise that the enterprise zone legislation is going to provide.

Other than that, to say that I'm more than pleased to be here, and to let my fellow panelists know that it's tough finding financing, but it's not impossible. If we can make it, if we can demonstrate in one of the most impoverished areas that financing is available, it should be an impetus to all of us here not to give up.

We're always looking for dollars. We can always use more. But there are dollars out there, and with some creative maneuvering, and with some supports from groups that are and have been in existence, with some collaboration with that sort of effort, you can attain the finance you're looking for. I thank you for inviting me.

[Mr. Castro-Ortiz' statement may be found in the appendix.]

Chairman TORRES. Thank you, Mr. Castro-Ortiz. We'll have some questions and comments after we hear from all of you. Our next presenter is Mr. Theobald representing Comprehensive Technologies Inc., and if you will indulge me for a few minutes, Mr. Theobald represents a company much like RJO, which started out with a kind of $500 initial capital venture, maybe in a garage. I recall CTI when they bought a house up on Columbia Road, an old house, and worked out of the basement for a long time.

I remember when their business didn't flourish because of the problems in the early 1980's, and they had to sell the house and move out, and Peter Theobald worked out of his basement, along with Sal Beltram. Today, if CTA is first and RJO is second, CTI must be a close third in terms of high-technology companies, and their growth, and the kind of miracle that they represent. I thought that was important to say for the record.

Mr. Theobald.

TESTIMONY OF PETER M. THEOBALD, EXECUTIVE VICE PRESIDENT AND CHIEF OPERATING OFFICER, COMPREHENSIVE TECHNOLOGIES INTERNATIONAL, INC. [CTI]

Mr. THEOBALD. Thank you very much, Congressman Torres. I am Peter Theobald, the executive vice president and chief operating officer of Comprehensive Technologies International. I appreciate the opportunity to appear before you. I would like to thank the Sub-

committee on Environment and Labor and the Congressional Hispanic Caucus for this opportunity.

The reason we felt it important to be here today is that CTI believes very strongly that there's a significant role for Hispanic and minority firms to play in the advancement of technology in the United States. At this point in time, however, we're very concerned. We're worried that because of the current deficit situation, those who are not so supportive of the progress that can be made by Hispanic companies in technology will use this opportunity to attempt to erode recent advancements. What we ask is that you do whatever you can to support minority firms' involvement in technology. All of the companies at this table are examples of the contributions minority companies can make. We would hate to see an erosion of the progress that's been made because there's so much more to do.

As regards background on CTI, we are a company of 335 employees. We were founded in 1980 by our president and chief executive officer, Celestino Beltran, and myself. We achieved $19 million in revenues last year and expect to exceed $30 million this year.

One major focus of the business is software development. We believe we're very much on the cutting edge of electronic data interchange technology. We also provide high-technology services in the areas of logistics, engineering, and information systems.

It was not an easy path to get where we are. While we are proud of what we've accomplished, there is much further to go. Looking back, there is no question the 8(a) Program was very supportive and helpful to CTI. Without the 8(a) Program, CTI would not be as successful as it is, and very probably we would not have been able to make the transition into the high-technology arena.

In the brief time I have remaining, I would like to leave your with a potpourri of recommendations. The first recommendation I would make would be to strive to keep the 8(a) Program as strong and healthy as possible. We're going to be graduating soon, but for the many others who follow us, it is a program that can significantly help transition companies into technology areas.

There are some difficulties with the program that, if eliminated, could help promote minority company participation in high technology. One area pertains to SIC codes. SBA restricts 8 (a) company entry into technology areas by limiting SIC codes. There is no good reason for such restrictions as long as the SIC codes obtained are a logical progression of business. There should be no constraints to obtaining SIC codes. This would help eliminate the competitive gap between the very large companies with broad capabilities and small minority companies.

A second issue pertaining to SIC codes is SIC code size limits. For example, SIC code 8711 had a $13½ million limit in 1972 and 18 years later, it is still $13½ million. Thus, because of inflation, companies graduating from the 8(a) Program are less ready to be competitive. They have less market position, probably half the market position those graduating in the early 1970's had.

I would like it to go on record that our company supports the Mentor Protégé Program. We believe in the program as a method to close the gap between smaller and larger firms. What better way to accomplish this through a strategic relationship or a teaming re-

lationship with a large prime contractor. We request that you move as expeditiously as possible to implement the Mentor Protégé Program.

Another issue I'd like to address is Federal agency contracting goals. Because they are goals and not requirements, they are meaningless. Agencies should be required to meet contracting targets. If they don't meet the requirement, then there should be a penalty.

Another area we are concerned about is the emphasis of awarding contracts almost exclusively to the low bidder. We understand we're in a budget crisis situation. However, we believe best value procurement will lead to cost savings in the long run, while providing better products and services.

Every day, we hear about companies who were big enough to buy into a contract and had little intent of performing. Performance is worried about later. We talk a lot about working smarter and ensuring the delivery of quality products and services. When we buy services and products where there isn't going to be an ability to perform because the job has been bid too low, we're not working smart at all.

The last recommendation I would like to address pertains to capital markets. As you are aware, it costs a lot to advance technology.

Unfortunately, U.S. capital markets are oriented toward very short term returns. Returns are expected in just 3 years or 4 years? Investors want to invest in technology, make it go public, and sell out and do something else as quickly as possible. However, significant advancements in technology can take many years and require long-term investment.

The Japanese invest long term. If we're going to mature our technologies, then we've got to invest long term. We must look for the long-term benefit, not the short term return.

Thank you very much.

[Mr. Theobald's statement may be found in the appendix.]

Chairman TORRES. Thank you very much, Mr. Theobald, for a very excellent statement, a good set of recommendations. Maybe we can articulate to a greater degree on those as we move along.

Mr. Serrano followed me here after, as I said, our long voting stance on the floor. He missed the presentation by his constituent, Mr. Luis Castro-Ortiz talking about the venture capitalist organization that he represents.

Mr. Serrano, at this time I would like to yield the floor to you to ask some questions, perhaps of Mr. Castro-Ortiz that you may have.

Mr. SERRANO. Thank you, Mr. Chairman. Let me first apologize for being caught up, but I must tell you something that I would like to discuss with you, Mr. Castro-Ortiz, and other people, and that is that in this budget which a lot of people are having trouble with, I did find a part that's interesting to my district, and that's the whole enterprise zone situation. I was asking some of the senior Members of this house if they know who determines who gets an enterprise zone. No one seems to know. Nothing has changed; 16 years in the assembly and 6 months in Congress show me that a lot of things are very similar, that the day before you vote you still don't know where they will be. So, I apologize for that, but you can see that was very much related.

With that in mind, Mr. Castro-Ortiz, let me once again, welcome you here, and ask you a question. If there was an enterprise zone, for argument sake, in the South Bronx, how would that relate to what we're talking about here today? Does it relate at all? Is there room within that kind of a mechanism for small business and for the Hispanic business person, or is this something that's been around so long that maybe the initial focus has changed and we're talking about big business coming into an area and getting a tax break.

Mr. CASTRO-ORTIZ. Well, if I can answer that question by an example, presently we have an urban enterprise zone, Mount Haven. That has proven to be a quite successful business venture. No; it didn't attract the big Fortune 5's. What it attracted were the Fortune 5,000's as we like to call them, smaller businesses.

I must say that the urban enterprise zone is a very, very successful zone, and, in answering to your question, an enterprise zone would be an idea. It would be an impetus. It would be a boost to our economy. It will attract new businesses. It will provide new capital that's needed.

We've just about depleted the dollars in our area. I understand that this enterprise zone will bring in with it about a billion dollars. Although we don't have an official confirmation on the fact that the South Bronx is going to be designated one, we do have some word to that effect, and we're making all preparations in the Bronx Venture toward gearing the community and eliciting new businesses to come within our area. Yes; it will provide the needed incentive for the South Bronx.

Mr. SERRANO. If I may, Mr. Chairman, just to share what you and I have discussed in private and with other people, we're going through this difficulty now of determining by 10:00 tomorrow morning how one votes on this budget, and for some people voting on this budget is a simple yes or no.

In a case like mine, the no can be explained, but a yes, I think after the senior citizens and others beat you up for the bad part of the budget, how do you vote against a bill that does include enterprise zones funded for the first time ever. So, I'm not trying to give you the dilemmas of being a legislator. I chose this. But it's not as simple as it appears.

Let me ask you, Mr. Otero, my earlier question which I wanted more of an answer to, only because I want more information. Are there organizations that do protect the interest of the conglomeration of small business, Hispanic small business, other than the ones we know? This is a leading question. Of course you're going to say yes. Is your success totally your success, or is there someone you called on to assist? Can people who are not as successful as you attain half of your success, for instance, by having someone who represents—I'll even load it more.

Everyone in the last 6 months is calling me from my district and surrounding area saying you're the Congressman now. I've got a contract here, I've got a contract there. I need help. Well, of course, I'm here to try to help. But I'm from the district that had Hedwetek, and there were people calling.

I'm not being tacky or mixing that with this conversation, because that is something that you get nervous about. How do I know

the person who is calling me should get my help? Who is out there in representation not only to lobby, but to say to me that person is a legitimate businessman and that person doesn't even say good morning to me.

Mr. OTERO. That's a very interesting and complex question, I might add. First of all, let me assure you that what little success that I have enjoyed is largely due to many other very fine people who I have had the fortune to be associated with throughout my entire career, starting, of course, with my parents.

But beyond that, to answer specifically your questions, there are, I am assuming we're looking at Hispanic organizations, numerous such groups located primarily here. There are Hispanic organizations, business organizations, lobbying organizations, as well as minority organizations which represent the broad spectrum of small and disadvantaged business firms. I am on the board of directors of some of these organizations, such as the Latin American Management Association, a very proactive organization relative to trying to shape legislation that will have an effect on small and disadvantaged businesses.

Congressman Torres, who was there during the wars of the 8(a) Reform Act, and of course the Defense Department 5-percent goal program, can testify to the fact that we within LAMA, and the companies associated with it, tried to shape, influence, and generally tried to be good Americans in trying to point out to Congress what our points of view were. There's the Hispanic Chamber of Commerce, National Association of Minority Businesses, National Federation of 8(a) Companies, a whole plethora of these types of organizations that can provide assistance of various sorts.

Whether or not we have utilized congressional assistance in helping to secure Federal contracts, the answer is affirmative. To the extent that we've done it within the law is very important for everyone to recognize. But we certainly feel that utilizing whatever congressional pressures can be put on Government agencies to ensure that we get a fair and equitable treatment, not a disparaging or sleight of hand or anything of that nature, is, I think, the proper role of Congress. To play favorites or to give us an unfair advantage, we certainly do not subscribe to that type of attention.

But where, in fact, minority businesses are not given fair hearings, or where, in fact, the law is obviously not being followed, either in intent or in performance, then we think Congress has a proper role to play in first, being the overseer and second, in developing new legislation that could more effectively help us both achieve our mutual objectives. I hope that I've answered a little bit of your question.

Mr. SERRANO. Yes; it certainly has, and I appreciate it.

Chairman TORRES. Thank you, Mr. Serrano, for some very poignant questions to our witnesses. I wanted to simply state to our panelists here that some of you have raised this Mentor Protégé Program. I want to tell you that we're moving. At this very moment as I speak, the conference committee, the Armed Services Conference Committee between the House and the Senate is discussing this very Mentor Protégé Plan.

Senator Nunn, as you know, is the Senate sponsor of that. I am the House sponsor of that legislation. I think that we're in good

stead, and that we're going to come out with an important program. Senator Nunn may be with us tomorrow at one of our functions. I hope that maybe by that time he can announce that the conference committee has adopted that.

We've been meeting with the Association of Aerospace Industries. They are very supportive of this plan. We think that bodes well for the passage of this type of legislation.

For some of you who are not aware of the Mentor Protégé Plan, it really is a set beyond graduation from 8(a) certification, where a company who has demonstrated skill and ability to do the kinds of things that you're doing that can move on to another plane by having one of the large corporations that you work with really taking you under their wing, and making you a sort of partner in the relationship, they being the mentor, you being the Protégé. As I understand the legislation, even to the extent of upfront financing and advance payments to make sure that you have the kind of underpinnings that are going to be necessary to make the program work.

Earlier, we heard from the representative from SHPE, Margarita Colmenares, who talked about this problem. Some of you may remember the EDS issue that she stated with ATCI where a prime contractor probably got its Federal contract and became a prime contractor because it committed to the Federal Government that it would subcontract with an Hispanic organization such as ATCI. Once the contact was in hand, once the Federal Government had allotted the contract to EDS, EDS chose not to even speak to ATCI, or perhaps even renege in its commitments.

We have tried in Congress to circumvent that kind of attitude, that kind of reneging on subcontracts, by imposing what we call liquidated damages, and that is that the prime contractors will have to pay a price for reneging on those contracts to their subs. This has caused a lot of concern obviously in the industrial sector area, in the private sector.

The Mentor Protégé Program arose out of that concern by companies that they do not want to get caught and get penalized for having reneged on contracts, and perhaps, as a consequence of that, the Mentor Protégé Program comes into effect. I think these are all good, positive moves that have taken place, but they've taken place because people like you who have made recommendations to us, who have come to hearings like this, and provided for us the understanding of the short changing that all too often occurs to minority companies.

As we move along, and as your recommendations indicate, we hope that we can shore up those deficiencies, make the private sector certainly much more responsive to minority companies, but make the Federal agencies a great deal much more understanding of your specific needs.

Mr. Theobald elaborated somewhat on EDI. We've had substantive hearings here in this committee on exactly what electronic data means, and what it means to small business people. Perhaps you could elaborate as to how you're meeting this challenge at CTI.

Mr. THEOBALD. Certainly. First I'd like to thank you, Chairman Torres, because I'm personally aware that you have taken a leader-

ship role within your groups to promote EDI as an important technology area.

We got into EDI specifically because we became very concerned about what would happen to the small businessman, the minority businessman, upon the implementation of electronic data interchange. You may recall that back in the 1960's or so the automotive industry was one of the first that adopted electronic data interchange, that is the automation of business-to-business transactions in standard format. What happened in the automotive industry is that large manufacturers forced small suppliers to transact business electronically. The cost for a small supplier was great. They had to go out and buy expensive software and hardware if they wanted to continue to have a chance to compete, and it was a great hardship. We became concerned that technology be developed that would not require the small minority business to pay an arm and a leg just to continue to be able to compete.

Chairman TORRES. What would that additional cost be for a small business to get into this mode?

Mr. THEOBALD. In the olden days, we're talking tens of thousands of dollars, $30,000 to $40,000 probably. We even heard that for some sectors of the economy it was beyond that. So, what we wanted to come up with was inexpensive software. We have now developed, we think, software technology that is on the cutting edge of EDI capability. Our software is priced inexpensively so that the small and minority business can continue to compete, even when they may not have significant capital resources. We've developed a package for the automated processing of medical claims that promises to revolutionize the industry. Another software package we have developed has significant application to bring the Defense Investigative Service, the IRS, and other Government agencies into the world of EDI.

Chairman TORRES. Mr. Serrano, any questions for Mr. Theobald?

Mr. SERRANO. No.

Chairman TORRES. I just want to return to Mr. Otero. In your statement you made substantial emphasis on this whole educational process, from prenatal, till the day that they enter school, through postgraduate education, and on to their entrepreneur pursuits in engineering and scientific fields.

How are you as a businessman, a leader in high-technology, interfacing with educational institutions? Are you doing something?

Mr. OTERO. Yes; we are. First of all, as part of our normal fringe benefit packages for our employees, we foster and encourage our people to continue their education, lifelong education. We don't believe that education stops with a 4-year degree, or graduate degree, or doctoral, or MBA, or what have you. So, we have, through our human resources programs, fostered for our employees, not only formal education, but ad hoc education, special topic seminars, and what have you.

But I think even broader than that, I happen to be a member of the board of directors of the Maryland Chamber of Commerce. Maryland is that State across the river, for some of my fellow Hispanics.

We, the companies of Maryland, have noticed that education is by far, when we surveyed all the companies—and there are some relatively large companies within Maryland—that education was by far the number one problem. So, we questioned ourselves, how can we as industry people do something? Certainly, we're not educators, so we can't leave our jobs and go into schools. So, there are a few things we can do, some relatively innovative things, for example.

One of the things that American industry still leads in the world is our ability to manage, to achieve visions, to develop 5-year plans, strategic plans, and how to organize things. We feel that within our educational system, that level of sophistication is sorely missing, that our school systems really don't have visions.

We talk about educating Hispanics into the sciences and technology. What would our vision be? We don't have one. Well, if you don't have a vision, any road will take you there, and that's exactly what we're doing by throwing money at the situation.

We believe that industry can contribute to education by transferring some of the management talent that brings along with it accountability and other concepts. That's certainly one thing.

There are many other things that we obviously can provide. There are very fine companies, and I don't mean to be giving a plug to a huge computer company such as IBM, but in this case I think they deserve one. They are making substantial investments in the Baltimore school districts to provide computer resources and to increase the computer literacy of inner city children, and they're doing it in a very innovative fashion. They're putting their money where their mouth is.

In other words, they're going to charge the school district for these computers, but only if the children in testing actually show significant increases in their performance. That's fairly innovative, and I'm sure that other companies are doing the same thing.

We have done the same thing, RJO has, by giving scholarships to local high schools, not only in Lanham, but in other areas where we're located, to minority students in science and technology, not just Hispanics I might add. It's hard to find too many Hispanics in Oakridge, Tennessee.

There is a whole host of things that industry can do to become a partner in the educational system. I think we've all recognized that we cannot leave it to the Congress, we cannot leave it to the schools, that we have to enter into active partnership. After all, we are, in fact, the recipients of this thing called raw material, called students, and for too long, I guess, we have been sitting idly, quietly, just taking whatever the system gives us.

Now we find ourselves in a significant world-wide competition for jobs and for prosperity. We can no longer just sit back and idly complain about it. We now have to take a more active role, and companies such as myself and others are, in fact, trying to do that.

We'd be willing to work very closely with the Congress to establish programs that perhaps could even incentivize us, encourage us without any handouts or anything like that, through tax credits, through nothing more than making it easier for us to do child care.

Remember, I mentioned prenatal. We have to remember that you cannot be a very successful Hispanic engineer if you grew up

as an undernourished, undereducated, underloved child. It is very difficult to create Nobel Prize winners when you start off with that as your roots. So, the problem starts at the very early stages, and even before children are, in fact, born.

Chairman TORRES. Very good. Thank you.

Mr. Priester, in your statement, one of your observations, you said the most significant lack of, or reason for lack of participation by 8(a)s and other minority companies in defense subcontracting is that most of such companies don't have the marketing depth to learn about major acquisitions during the development stages when substantial subcontracting decisions are made.

May I ask you, if you were a large prime contractor, how would you include 8(a) firms into a large Government contract?

Mr. PRIESTER. Well, I think the statement you made, Mr. Chairman, about the Mentor Protégé Program is one that can really be used here. If larger corporations would—how I don't know—somehow bring on to their staff the key people from the smaller 8(a) corporations and have them to work directly with their managers. I think in the naval sector, these managers are called codes, or such other key individuals, when projects are in their conceptual stages.

This would allow a smaller company to be at the ground level at the initial concept of those ideas, and then the 8(a) company would be included when the pie, so to speak, is being cut up and sent out at that particular time. After a procurement, or a set of contracts are awarded or issued, it is entirely too late for the smaller company to be a part of the system.

You take ABS, for example. We are nowhere the size of a CTI, or a CTA, or RJO. Last year we did in the neighborhood of $2 million. But out of that money I have to do the same kind of marketing, and I have the same expenses as they have.

If I cannot be in the buyers face, as Mr. Otero shared with me, I am going to constantly face the lack of activity problem. So, to answer your question, I think the Mentor Protégé Program is definitely a program that should help the 8(a) corporations.

Chairman TORRES. Specifically, in terms of this issue, can you tell the committee how your company has encountered such kinds of problems in trying to convince a prime that you are the right company? What problems have you had?

Mr. PRIESTER. Well, we have had all kinds of problems. There is one issue that is at hand now, and that is the definitions between the local buys and the national buys.

Chairman TORRES. You talked about that Jacksonville, Florida situation.

Mr. PRIESTER. Yes, sir.

Chairman TORRES. Could you elaborate on that?

Mr. PRIESTER. It appears that some employees of the SBA are not informed. I'm not coming down on the SBA people, because the SBA people got us certified in 90 some odd days, and I think that's incredible compared with the stories that I've been hearing, where it's 150 days, 2 years, and all that kind of stuff.

But some of the representatives, some of your contract specialists are not informed on some of the rules, and some of the rules have been out for over a year now. I'm talking about the new rules that

were published in 1988. Some of these people are nowhere aware of what they are supposed to be doing.

I'm told by one individual that what they considered a local buy was that it's supposed to be used in one region, and that's not the definition at all. It's supposed to be used by a department within one region. Once these definitions between the local and the national buys are publicized and made known to these people who are holding contracts away from smaller 8(a) firms like ABS, I think that would help.

I think educating certain people who are in missions to keep certain contracts away from us, sir, you pick on.

Chairman TORRES. Mr. Serrano.

Mr. SERRANO. I just wanted to make a comment on what you were talking about just now, just for the record. There are many of us who have voted for cuts in the defense budget, and we feel that we probably could still cut more in the defense budget.

I hope that none of you, or no one out there in the community feels that this should give these folks any excuses to say now that they don't have money for our community in contracts. There is still plenty of money in defense. I think we all know that.

The whole purpose of cutting these budgets is an understanding of what is happening in the world now and, notwithstanding the Persian Gulf, the lack of need for all that kind of an expenditure, but our point has always been that whatever the budget is, fairness dictates that there has to be representation from our community, not that, well, they cut us by $10 billion. Therefore, you guys are out. Well, how about the rest of the people? Everybody should bear the same burden.

But trust me. It's not a burden. There's plenty of money in the defense budget still for everybody.

You had made a point. You commented on the fact that we had to alleviate the situation where some—you mentioned two parts of the country. You mentioned Bangor, Maine.

Chairman TORRES. That was Jacksonville.

Mr. SERRANO. OK. That was the same question then. All right. I have no further questions.

Chairman TORRES. Mr. Otero, I understand you are a strong supporter of the Mentor Protégé Program, and I gather Mr. Theobald. Are you cognizant of this particular program?

Mr. OTERO. Yes.

Chairman TORRES. Could you both comment on the Mentor Protégé Program, and what you see in the future for it?

Mr. OTERO. Well, assuming it's passed as we recognize it, but it is my philosophy that none of the punitive measures mentioned will ever help, and we have to enter into a partnership. Despite what Congressman Serrano says, the prime contractor community will utilize every weapon on us, including, "We don't have the money. We can't find you. There's not enough of you who manufacture. Besides, small companies can't do this high-technology work." I have a whole list of them. If you're interested I can probably share with you a thousand good reasons why aerospace prime contractors do not want to deal with us, or in fact, sometimes even do not give people audiences.

So, the answer is that we have to enter into a new era of partnership with them, maybe partnership encouraged by legislation and some potential punitive actions, but we believe that business is usually conducted between companies who feel that they have a mutual advantage in dealing with each other.

This partnership concept is what we see the Mentor Protégé Program as doing, especially if it has some of the suggestions that we've made added to it. For example, once the prime contractor has won the contract, the Congress and everyone else loses all leverage to have them Mentor Protégé, subcontract, or whatever we choose to call it, into the future. Therefore, all legislation really must have within it some act that the prime contractor must perform before the contract, in fact, gets awarded.

Once the contractor gets awarded the B1, the B2, the ATF, the SDIO contract, or any other thing, it's probably not going to be curtailed because they're not meeting their small and disadvantaged goals, as much as we would like to think it might. So, you have to catch the award before it is in their hands. You can decide, for example, to give them special consideration in source selection for having completed small and disadvantaged business plans with real live SDB's written into them, with real live commitments. If they don't meet the commitments, the contract is terminated, because that would be the conditions under which they were awarded the contract. Once you award the contract, all your leverage is gone. I think we have to recognize that.

But what the Mentor Protégé Program will allow us to do, if and when it gets implemented, would be to have real business relationships between large companies and smaller disadvantaged businesses. It's my theory, at least, and that of the Latin American Management Association, that it's only with real business relationships that we, the small disadvantaged businesses, will be able to start making those numbers get higher. It has to be of mutual benefit to both companies.

We have to convince them that we are educated, that we do have capability, that we are out there, and what have you. The Mentor Protégé Program, by virtue of what it contains in it, makes it easier, facilitates these types of partnerships with companies such as ourselves and others represented here.

So, we certainly champion the entire program. I have already suggested some, what I call, important fine tuning to that program to ensure that we don't misuse the Mentor Protégé Program. As I remind my aerospace friends, they're not dealing with their own money when they deal with the B1 or B2 contract. They're dealing with our money, and our money has our laws attached to it, and our laws currently say what they're supposed to do, and they're not doing a very good job of doing that right now.

We just want them to live up to their words, and we want to help them by identifying our existence. We can identify thousands of qualified, small, disadvantaged businesses of all sorts throughout the country, and they can enter into real honest-to-goodness partnerships with these companies in a business-like way. That's what we like about the Mentor Protégé Program. It appears to be a more businesslike way, the way that companies normally do business together, and not necessarily a confrontational method. Some of the

things we have tried in the past, even though we applauded those things, haven't worked, and so maybe it's time to try something different.

Chairman TORRES. Mr. Theobald, can you add to that?

Mr. THEOBALD. We believe in the concept of the Mentor Protégé Program because we believe strategic relationships are good business. Such relationships are needed to break down stereotypes.

Every time we go out and talk to one of the big companies, I can tell what they're going to say before they ever say it. They'll say, "these guys, because they're 8(a), don't pay their bills, are poorly managed, don't have the technical credentials," and on down the line. We have to have a way, either strategic partnerships or the Mentor Program, for them to begin to understand that there are a lot of good teaming partners out there. We need a system that will challenge, I say force, larger companies to want to work with smaller enterprises. I believe that once the two parties work together, the larger firm will find out we can do just as good a job, if not better, than they can.

Chairman TORRES. Very good. Just one more question of Mr. Castro-Ortiz. In your venture capital organization, are you a licensed SBIC, as we know them, Small Business Investment Corporation?

Mr. CASTRO-ORTIZ. Yes; we are, in fact. We've got three personal notes. We've finally gotten a State certification, but three individuals including myself have, in fact, come through with licenses.

We began serving as consultants so that the conflict wouldn't be there on a corporation. But yes; in fact, we are. We're aggressively looking for money. We do have right now in place a type of revolving loan, and again, we are now in the process of even acquiring a local bank. So, yes; we're moving aggressively.

We're very unique as a nonprofit organization in the field of finance venture capitalized.

Chairman TORRES. To what degree in your venture activity are you serving the immediate needs of the Bronx community? I mean, you're dealing with small business people in that area? Are you going beyond——

Mr. CASTRO-ORTIZ. That's correct. No; we're dealing exclusively with businesses of the South Bronx or the Bronx area. We don't go into Manhattan or Brooklyn, any of the boroughs adjacent to us. What we do to impact within our community is provide jobs. Those businesses that we help, it's required that they provide jobs. The big criteria for the loan is the fact that it's job incentive. So yes; they must provide jobs. It's not just given to an agency to expand for material purposes. That we do, in fact, work with, but we do it on a more conventional—we go to banks, local finance.

Chairman TORRES. I want to thank all of you very much. You've been extremely helpful in broadening our understanding of this issue. Mr. Serrano, do you have some follow-up questions?

Mr. SERRANO. Yes; I did. I'm sorry.

Chairman TORRES. Please. I'm sorry. I yield to you.

Mr. SERRANO. That's quite all right. First of all, what are the latest figures on unemployment in our neighborhood in the South Bronx?

Mr. CASTRO-ORTIZ. In our particular neighborhood we're soaring into the 30's. We were at 19 percent at one point 2 years ago, as I understand the statistics. But the most recent, and that's to the census that's just recently been done, we're hovering past that 35 percent. We're looking at sizable unemployment within our district.

Mr. SERRANO. Do you have a count on Hispanic businesses owned, how many?

Mr. CASTRO-ORTIZ. Oh, yes; we do. In fact, for the first time, we do have a list, a comprehensive list of businesses that are owned by Hispanics. It's also demographically broken down into ownership resident, which is another unique kind of identification. What I can tell you, my Congressman, is that the owners of 80 percent of the businesses do not live in the neighborhood, so that we've got moneys constantly leaving that neighborhood which needs it the most.

Hopefully, through our venture in acquiring or in partnerships with Venezuela and a Korean group, we hope to bring back moneys to that community with the stipulation that it stays in the community.

Mr. SERRANO. One last question. We know that access to capital is a major problem for Hispanics. Specifically, what problems do your corporation encounter in attracting investors into the South Bronx?

Mr. CASTRO-ORTIZ. It's been the history that accountability, honesty, trust. Those that have the dollars are very skeptical about releasing the dollars to a nonprofit corporation because of the image that they tend to project, and that is, they're underpaid, they don't have accountability. So, we have to jump over a lot of hoops by certifying that our records, journals, are done in a prudent manner, and there are checks and balances with us.

We do a dual journal kind of entry into all accounts receivable. We've got to demonstrate that we are physically sound. That tends to be the biggest problem, and the other is, what's in it for them when we're talking less than prime as a return. That's an inducement to provide that needed money.

But I dare say in closing this bill, this new budget that's coming in place, as I read it now, again, I will reiterate, will help us in providing that tax credit to investors. I see a boom in increasing of investors.

Mr. SERRANO. I could ask you this later off the record, but I guess one thing that Congressman Torres has taught me is to put things on the record, for somebody else may read it later. You seem hopeful that our district will be one of the areas designated.

Mr. CASTRO-ORTIZ. Yes; I am.

Mr. SERRANO. Has someone told your corporation this, that maybe I should be calling within the next 12 hours prior to that vote?

Mr. CASTRO-ORTIZ. Well, perhaps a little history on myself. I am the past project director at Lehigh University, which is a rather prestigious engineering school, plus being alumni and director, I helped structure the Lee Iacocca Foundation while at Lehigh, and through the Iacocca Foundation we've met with Mr. Kemp, and his design and his zeal back then, in the enterprise concept.

He's a champion in that area, and I've got to respect him on that. So, when we met again at the World Trade Center on the Port Authority, New Jersey, New York Port Authority seminar, I broached him on the idea, and I said to him, not just myself, but others, and I'm sure you have, that presidents have come to the South Bronx. They've gotten all the accolades, et cetera, but once they left, they left, and nothing else has become of it.

What he has assured me is that I've been up to the South Bronx, and I'm not leaving it, and that's about the extent of it. I understand that zones have been proposed. If it's not gotten to your table, it will certainly get to your table for approval.

Mr. SERRANO. The reason I asked you that is because, as we understand it, the legislature that we may vote on is open ended. It allows exactly that. It allows for the secretary to determine which will be the first to go up to 100 zones, but I'm talking about 5 to begin with. When they're in Chicago, and Philadelphia, and certainly LA, and other places, you can imagine what the competition would be like.

I think again, it would be, for the record, the kind of thing where it would be living up to a commitment, and the commitment when this first started, when my predecessor Bob Garcia was involved in it, and Jack Kemp as a Congressman, and Congressman Rangel, it seemed to always be spoken of as tailor made for the woes of the South Bronx, and it would be a shame if now, somehow within the next 2 or 3 months, it got left out. I'm glad to know that you ran into him at the World Trade Center.

Mr. CASTRO-ORTIZ. He set off the urban enterprise zones, which is another factor, and I know you had a lot to do with that, and it's working. I mean, it's demonstratedly effective. Gosh, I mean, the South Bronx needs it.

Mr. SERRANO. One last question that you triggered by this comment. Assuming we get an enterprise zone, and then you have the State urban enterprise zone, and certain things you get from the city, would that complete the package that you and other groups would like to go forward with, or is there still something missing? If we were to add to what you have now, the Federal enterprise zone, and I know that the city has been helpful with some things, does that now give you all that you need now to go forward and try to bring people in?

Mr. CASTRO-ORTIZ. In the world of business and developing business, yes and no. What it doesn't bring is the educational need, the land of literacy, the addressing the issues of literacy. If a component within that zone can gear itself toward literacy, which is a big factor, I think yes; it then would be the most effective project.

I've got to say, and I've said this in my opening address, you have been the champion in education for our people of the Bronx. The things that you have put in place are now in motion.

We have now a superintendent who is implementing a lot of those recommendations, a lot of those ideas that you proposed and were dreams, perhaps, in your eyes. We decentralized. Now we're back to centralizing.

We're holding principals and administrators accountable for the first time. This has a lot to do with what you've been champion for

the past 16 years. I've got to really thank you so much for that. It's coming home to roost at this point.

Mr. SERRANO. I thank you for those nice——

Chairman TORRES. Mr. Serrano, I'm sure you asked that last question.

Mr. SERRANO. Yes. I tell you, if I had written that answer, I couldn't have done a better job.

Chairman TORRES. He did in his opening statement.

Mr. SERRANO. It's funny, Mr. Chairman. Yes; I know, and I really thank him for it. This is such an experience for me, because I've been here 6 months, and I left being chairman of a committee, a member of the Ways and Means Committee, to come here, and at first I said holy smoke, I'm a freshman.

Then I quickly found out that being in Albany was like being the starting short stop on a double A team. Even if you are the rookie here, it's still the rookie on the major league team, and it's quite an experience. It's totally different.

But I'm glad that I've been reading the papers. A lot of the things we left in place came to be, and we have to turn that school system around, and we have to do it by involving parents, by giving children role models, and at the expense of sounding totally against some of the things that some community activists yell about, I think you do it also by respecting qualified teachers, not just saying they're the enemy, and they can't teach our children.

These people have a difficult job that I certainly don't want to have, because I don't know how to handle it. The ones who are no good we move out, but the ones who care and do good, we must give them certainly more than $22,000 a year to begin with.

Mr. CASTRO-ORTIZ. Yes; well, they just signed a pact that's 5.5.

Mr. SERRANO. Yes; I saw that.

Mr. CASTRO-ORTIZ. But it's something, and there is the pension being made. We can escape that literacy. Literacy plays a major role here. If you're not literate, you're not going to be high-technology. It doesn't happen. You've got to get down to a fixed foundation. You've got to start from the beginning. You just can't take it side ways.

Mr. SERRANO. Mr. Chairman, I won't take up more of your time. I just want one last question, because every time he speaks he triggers something else.

For years, we saw the emptiness of the lots in the South Bronx. Am I correct in assuming that business people out there who feel that there is such a future, that a lot of those empty lots really are not empty, that they belong to someone? There was a time when you saw a lot of land, and it belonged to Government, Government having taken it over from an abandoned building situation.

Now, I've been told that a lot of that land is being purchased by people who are holding it, because they're either taking a chance that something has to happen, or they see it happening already, and they want to be in on the first floor. Is that true?

Mr. CASTRO-ORTIZ. Oh, that's correct. I can tell you we've been trying to expand, and we can't find a lot. If that doesn't say a lot for hope in the future, that does. You cannot. South Bronx is known for being burned down, dilapidated, but that's on the surface. The inside part is people are purchasing. Residents are involv-

ing themselves. Residents are looking at a possible investment, and everyone is sort of waiting for the day to happen.

If this enterprise zone should ever be designated for the South Bronx, I will guarantee you, South Bronx will make history. You will see innovative-type programs. We are already doing it with this capitalization by nonprofits. I mean, no group is doing what we are doing.

Not only are we preparing the financials, but we're walking the client and making the actual presentations to these lenders, and that's what's making it successful. So far in my years' experience with Bronx Venture, we have 100 percent, a 100-percent performance in these loans, or this venture capital that we seek out, and that's a very, very impressive record, and we hope to multiply that.

Chairman TORRES. Gentlemen, I want to thank you very much. I can't tell you how helpful your observations and recommendations will be to the committee, those who aren't here and will read the record in terms of working in the future to try to design the type of legislation that meets the kinds of expectations that have been enunciated here.

I just simply want to say to all of you, especially to Mr. Otero who issued the challenge, that we will make that challenge. I think it's critical, I think it's important, and you've helped us to make that decision. Thank you very much. You're now excused.

We have two more people whom I would like to welcome. They've been waiting long and patiently. They're here, and I think that within the time constraints that we have I would invite them to come to the table. Mr. Lewis Hill, the president of Tax Valuation, Inc., and Sarah Zapultski, Research and Decision Support Group, Inc.

Thank you very much for waiting so patiently. Without any other further delay, I would like to invite you now to give us your statements.

Mr. Hill.

TESTIMONY OF LEWIS HILL, FOUNDER AND CHAIRMAN, TAX VALUATION, INC.

Mr. HILL. Thank you very much, Congressman Torres. Congressman Torres, Mr. Haynes, it's a pleasure to be here, and I want to thank you for giving me the opportunity to give a testimony that I feel very strongly about. In 1985, after the failure of one of the first banks that I believe started the domino effect of the current S&L bailout and the problems in the financial industry, I was contacted by FDIC to help to solve a tax problem on a property in San Antonio, Texas. At that time, I had an idea of what was going to happen in the future.

I have a tax company, Tax Valuation, Inc. I'm founder and chairman of the company. We're out of Dallas, Texas.

We recognized the problem that was happening in the banking industry. We took this problem, and we've expanded it into a large minority consultant company. Today, we represent over 12,000 properties for the FDIC and RTC. We are currently staffing up to add an additional 24,000 properties to our portfolio, and we're creating the ability to have an EDI-type system operation.

We believe what Mr. Theobald was saying, that the EDI system in the small business is going to be important in the future. TVI is one of the largest tax consultant companies in the country today. We have just presented a joint venture partnership with RJO in order to form a team to better serve the banking industry.

My testimony today is based upon close observation of the RTC directives since its inception, and the evaluation of its policies, directives, and procedures implemented to date. When Willy Sutton was asked why he robbed banks, he replied, because that's where the money is. When asked why a large CPA's firm's banks, attorney firms, real estate companies, and businessmen create overnight expertise firms in management, asset management, loan workouts, asset disposition, property management, real estate brokerage, to do business with RTC, the answer is, because that's where the money is.

Yes; RTC is where the money is, and in the coming years, the budget or the bailout, is estimated to increase in an amount equal to or even surpass the defense budget. Therefore, careful consideration must be given to the fact that many of those firms are the ones that master minded the creation of the investment firms, portfolio packages, and development ventures, syndications for presentations to savings and loan institutions prior to their failure, and even though RTC created the fitness integrity qualification, many have circumvented these qualifications, and that's why RTC has got to set a firm course of direction.

RTC, we believe, has a steering wheel. Charles Segman has proven himself. The FDIC emblem is still on the counters of financial institutions, and still represents security for the American people.

However, the steering wheel has not yet been firmly attached to the car. The nuts and bolts have not been inserted and tightened so that the car can be directed. Committees, boards, committees, and more boards must be satisfied before the job can be completed or even started. We believe that they should decide the satisfaction after the job has been completed. A team must have freedom to set a direction so that policies can be set.

Once the direction is set, we must set firm directions for minority participation in RTC. New releases speak of the strong intentions of RTC to participate in minority contracting. However, large firms have made statements such as we cannot see any advantage to being a minority firm, because there are no firm directions or advantages in the minority participation program of RTC. The question is, why?

Nonminority firms are taking advantage of the indirection of RTC by one, securing contracts from conservatorships where bidding is laxed; number two, there remains an association with a failed S&L to dispose of any other institutions hired to assist FDIC; and three, continuous work previous contracts.

Firms not capable of passing the fitness integrity qualifications are creating new companies. A minority division of RTC should create policy too. One having stricter enforcement of the fiduciary and integrity qualifications. Equalization of portfolios must be put out for bid. A strong minority and subcontractor's policy with a 10-percent contracting goal carefully selected, and evenly evaluated

portfolio set-asides. Educate minority contractors on bidding procedures. New business incentives for small and nonminority business as well as minority-owned business.

Strong job history and management qualifications for the minority qualifier. Consideration to participate in an SBA 8(a) contracting program. Last and most important, performance for contractor. Set standards for performance and reward the best.

Minority caucuses believe a 10-percent contracting goal is not unreasonable. Such a goal is substantially less than 23 percent conservative estimate of the present percentage of the population represented by minorities. Assets should be evaluated and packaged on an even basis, not just a dollar amount, but in a number of assets. After a minority has bid, if he has been unsuccessful, it is important to educate him as to why, and how his bid can be more competitive. Remember, 95 percent of the companies doing business in the various fields of RTC have never been in the bid process in those fields.

In conclusion, the minority business community has an urgency. We urge the committee to get involved in the crisis that faces the Nation. Your task may force you to give much of yourself, but when the job is completed and you have made it possible for all present to understand that the need for more aggressive minority development programs throughout the country is important and is implemented so you can walk away proud with a job well done. Thank you, Mr. Chairman.

Chairman TORRES. Thank you Mr. Hill for a very good statement. I'd like to now turn to Ms. Zapultski.

TESTIMONY OF SARAH ZAPULTSKI, STAFF MEMBER, ON BEHALF OF RAFAEL G. RIVERA, PRESIDENT, RESEARCH AND DECISION-SUPPORT GROUP, INC., AND HOMER GUERRA, PRESIDENT, CHRONOMETRICS, INC.

Ms. ZAPULTSKI. My name is Sarah Zapultski, and I'm here as a staff member of Research and Decision Support Group, and I just wanted to present testimony for Rafael Rivera, who is president of that, and also Homer Guerra, one of the few startup Hispanic high-technology firms. It's an honor to provide testimony.

There are several issues that we'd like to address regarding the startup of a small high-technology business. Most of us involved in the initiation of a business are professionals, with many years of experience. A startup business, however, requires much more than technical expertise. It requires know-how in the business environment, a good understanding of the client, experience in management and finance, and, most importantly, capital.

Experience and assistance can be obtained in most or all of these areas. However, if the administrative steps involved in the development, with the Government, of such a business often present serious obstacles to the process of startup, then these become a substantial burden on the capital input necessary for startup. It is this last item that we'd like to address respectfully.

The following are some examples of problems and hurdles encountered in initiating these contracts, and are also reminiscent of those that occur often. These problems fall into two different cate-

gories. Some of these obstacles are encountered one time only, and then from then on they wouldn't—the firms would know more about them, and then there are those which are reoccurring problems, which are always encountered.

Among those that are one time only are closure on contract requirements. The approach of contracting officers and technical monitors is to minimize the cost of the contract and maximize the product expected for the contractor. But the methods used by most Government negotiators, either for their own personal negotiations or for the benefit of the Government are aimed at obtaining the best possible deal only, the contractor's interest notwithstanding.

Whereas an experienced firm with an established capital backup has the resource to negotiate this contract and withstand the delays these negotiations cause, a small startup firm can lose hundreds of hours of staff time, and without the time for sophistication to finesse its position, the firm may be forced to accept a position that is not profitable, or withdraw from the bid entirely.

The second of these is preaward and administrative delays. A startup business or contractor has to contend with administrative preaward delays that occur after the bidding process but before the award is actually given. These delays are to be expected in dealing with many firms, especially the Defense Contract Administration Services and Management Area or DCASMA, and the Defense Contract Audit Agency, or the DCAA.

The new firm has to go through these audits. For example, seek to examine the proficiency of the firm's accounting system, transportation, how they're going to deal with shipping methods, and quality control. These category delays are often unanticipated by the startup firm. To the inexperienced contractor, these audits may cause additional costs and delays that further complicate the bidding process.

Chairman TORRES. If I could interrupt there at that point, how would you remedy that? What would you recommend to remedy some of those deficiencies?

Ms. ZAPULTSKI. Basically, I think we would reiterate what Margarita Colmenares and most of the testifiers here said before. The need for information for people who are going through this process is essential. What you have are people going to the process who have the training, the experience, and the qualification to provide the Government with the best product and the best services.

Chairman TORRES. They have the technical expertise; they have the product line.

Ms. ZAPULTSKI. Yes.

Chairman TORRES. But they don't have?

Ms. ZAPULTSKI. What they don't have is the experience necessary with the Government, and they often won't get it from the contract negotiation who may not have the technical knowledge himself. Not only is this information not provided, but it's very hard to find if they make a conscious effort to go out and find it. They may have invested hundreds of hours of staff time and development to get to this point where a check is in the mail and not ever know that they've got these requirements to fulfill yet. So, their whole planning could be more efficient if they had this information earlier on.

Chairman TORRES. How do you envision their acquiring it? I mean, it's a task that obviously the provider would have to go through. At the same time, perhaps the contracting office might provide that information, but what you're telling us is there is an absence of this commodity, and I'm simply trying to determine how you feel this could be resolved?

Ms. ZAPULTSKI. Well, I would think, and this is just an informed opinion because this is a statement from Homer Guerra and Rafael Rivera, that if there was better information on what would be required of the firm above and beyond providing a product to get the contract bid, that would expedite the process for everybody involved. Again, I think that goes back to your Mentor Protégé Program, or what other people have mentioned beforehand as far as paving the way, because many of these steps cause very costly delays which as I say in my conclusion, may not——

Chairman TORRES. Understandably so. I'm sorry I interrupted you. I thought it was important to try to come to grips with that at this point. Please proceed.

Ms. ZAPULTSKI. OK. The last things that fall into this category are the post award administrative delays. The startup small business contractors may anticipate the auditing of the first progress payment by the DCAA, and this may delay the receipt of this initial payment by as much as 2 or 3 months under the best of conditions. These examples represent obstacles that occur only once in the startup process, but they can cause tremendous difficulties for the small minority firm.

Reoccurring problems include things like assistance in financing, and although there is assistance available to help finance startup projects, the process is not always amenable to a new startup or a minority business, and it's often difficult to obtain the financing required that would allow the firm to go rapidly to a critical mass of staff and revenue needed to become viable. This is especially true of high-technology firms, because the contracting loan officer or the loan officer of a bank may not fully understand what it is that the firm wishes to provide. This would obviate another step.

Even with signed contracts in hand, banks are not interested in lending to companies without at least 2 years experience and a demonstrated ability to make a profit. That's another problem.

Finally, I wanted to mention that insurance benefits are always a major hurdle. As the cost of insurance and other benefits is disproportionately high for a startup business with a number of small staff, this system works against a startup company.

Just to be brief, while a larger, established company can more easily absorb the additional cost created by these administrative steps, these obstacles put a greater strain on the capabilities of a new business. Hispanic engineers are extremely well trained, experienced, and are extensively qualified to fulfill the Government's and others' needs for high-technology and engineering services. However, as a minority group, there is lacking a history or track record in the private sector of America, which is almost assumed as a prerequisite for obtaining Government contracts, and this process is designed to insure the procurement of the best firm to complete whatever task it is, may at times inadvertently eliminate the very business which it seeks to attract.

Chairman TORRES. How do you feel about the comments of Mr. Castro-Ortiz, who manages a venture capital company? Do you think that this sort of capital resource would be useful to a young startup company?

Ms. ZAPULTSKI. I feel it might, but most of these comments are referring to problems encountered from the Government. People who know what they're doing and can provide the services run into the type of problems in getting the cash in hand so that they can move forward with their business.

[Mr. Rivera's and Mr. Guerra's statement, presented by Ms. Zapultski, may be found in the appendix.]

Chairman TORRES. Mr. Hill, you were mentioning in your opening statement that FDIC did call you to provide an assessment?

Mr. HILL. I was contacted by FDIC from a point of an asset manager who had an outstanding tax liability in San Antonio, close to a half a million dollars on a property that they had acquired from Bosier Bank and Trust. This kicks off a whole business for me, a whole future. I was contacted because he knew at that time I was in the property tax consulting business.

I went to him and found out that the taxes had not been paid for 3 or 4 years; the tax notices that the FDIC office were receiving were being thrown in boxes. At that time there were two boxes full of tax notices. FDIC was not paying property taxes. They didn't have the tax to do it.

Really, they had been paying taxes for other people. These are things that happened constantly. I took the notices, went to San Antonio, put a presentation together as to what was owed by the FDIC, what they were paying on other people's properties, what they had in penalties and interest, and this was before FIRIA, because FIRIA saw the penalty and interest problem to a point, went back to FDIC, explained what the situation was, they hired me. The property was valued at $18 million. It had a true value of only $9 million, so consequently the taxes were very high.

We made an offer to that FDIC office to set up a system, and I finally went through the whole system of FDIC and what they were doing with their tax notices. When I learned what they were doing, I set up a system on how to pay taxes, how to search taxes, how to defer the penalties and interest, and how to revalue the property as to get a lower tax base for the Government. On this property, we saved the Government probably $350,000 on the one property.

At that time, we asked them if we could do it for the whole FDIC office in Shreveport. They declined to give us a contract. There was too much indecision. They had never had this problem before. They were faced with something they didn't know what to do with, and it laid there.

I went back a year—well, I tried for 2 years to get the contract, went through a series of things of talking to people about it. This property I continued to save money on until it reached a point. We still represented it this year, and we got it down to its final value, cleaned up all the taxes, and everything of that nature. Then the FDIC office in Dallas was having the same problem, and they took enough confidence in us to hire our company to let us go in and set

up a system, and to date we worked for them for 3 years, and we've saved close to $5 million for that one office.

We just completed another office, a FSLIC office, and properties in just one county, savings were $1.5 million. They are having problems, so what we've done is we've put together a system for the FDIC, and hopefully to implement it into the RTC.

Chairman TORRES. I hear many complaints about RTC and their functional role in trying to move through this maze of inventories, property inventories that are a result of the S&L debacle. Would you say that your utilization by FDIC, and now looking toward RTC, that the RTC will be as respondent to you as FDIC has been?

Mr. HILL. Congressman Torres, each RTC office is like a separate company, although they got directors from Washington and they've got regional directors. They operate on a very individual basis. They're very difficult animals. However, the problems are just now beginning. We're on the base floor of the problems.

RTC has at this point, most of their properties are in conservatorships, are in receiverships, are being monitored by bad banks, good banks, and things of this nature. They've packaged a lot of them. The portfolios are going out to tax management—I mean, to asset management companies that do not care about the tax side. This is a problem that could save the Government. We estimated in two offices we could save the Government over a billion dollars in penalties, interest, taxes, and lower tax bases.

We just now signed a contract with the Valley Forge office, which is one of the first offices, and I think Mahelp had created an urgency in this area. They are the first office to have a large amount of properties. We represented about, I'd say, 800 properties in Texas. They've currently got a little over 2,500 properties all over the United States.

The first one that we have seen that shows a concern about this situation. Other offices we've talked to say we don't have enough properties to worry about it now. We'll pay the taxes as we do. We'll pay it at closing, and this only holds the whole system up. We're mandated to dispose of these properties. We're mandated to get the best price, get the buyer out there, and get rid of the property. Yet, when you go to closing, you find out that properties have $30 and $40,000 worth of back taxes due, which makes a seller—I mean, a buyer walk.

For example, we just did a search on a property that was at closing. The sale of the property was for $110,000. They had waited to do the taxes till the last minute. We found out that there were $80,000 in taxes due. The property was not a feasible buy at that time. The buyer walked. The things that are happening in the tax industry, the property tax side of the RTC and FTC have horrendous stories. I mean, you could write a book about it.

We have got systems in place. We're trying to put them in other RTC offices, but like I say, their concern is asset management, disposition right now, and not paying the taxes.

Chairman TORRES. Well, our time is running out on us, so I'm going to thank the two of you for making up panel number three. It was important to hear from you. This was an area that there was substantial interest in, so, I will ask our colleagues who are not here, who may have had questions to raise with you, to ques-

tion you in writing. If you could, respond to those so that we could enter those into the record.

I thank you once again for being here today, and again, for waiting so long to come before the table. Thank you very much. There being no further witnesses, no further panels, this subcommittee is now adjourned.

[Whereupon, at 2:25 p.m., the subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

TESTIMONY

MARGARITA H. COLMENARES

NATIONAL PRESIDENT

SOCIETY OF HISPANIC PROFESSIONAL ENGINEEERS, INC.

SUBMITTED TO

SUBCOMMITTEE ON LABOR AND ENVIRONMENT

3 OCTOBER 1990

Good morning Congressman Torres and other distinguished members of the subcommittee on environment and labor. I am Margarita H. Colmenares, National President of the Society of Hispanic Professional Engineers, SHPE (pronounced "ship"). We are a national volunteer organization of Hispanic engineers and scientists with over 130 professional and student chapters across the country. Our goal is to increase the number of Hispanic students, graduates, professionals, academians and entrepreneurs in the engineering and science fields.

Volunteers nationwide participate in a continuum of SHPE sponsored activities such as our ACE program (Advancing Careers in Education) where we influence young people in elementary and jr. high schools to consider careers in engineering and science. Our scholarship and tutoring programs support university and community college students who are pursuing degrees in engineering and science. On the other end of the spectrum, we encourage engineering professionals to become entreprenuers in the high technology area. SHPE has also been a catalyst in establishing technology exchange and partnerships with Mexico and Latin America through our international engineering and trade conferences. Through our efforts, the Society promotes engineering and science in the Hispanic community.

Over the years, our nation has evolved from an agrarian to an industrial to a technological society. With each of these changes has come a demand for a more sophisticated work force capable of higher order thinking skills. According to Dept. of Labor statistics, by the turn of the century, we expect a 40 percent increase in engineering, technical and scientific positions and only a 4 percent increase in jobs requiring manual dexterity and less academic ability.

Our community's access to well paying and challenging jobs in the future will depend on our level of math and science literacy. Our ability to improve our economic base hinges dramatically on our level of educational attainment and the type of education we obtain. Education is the key to world leadership, yet we are not keeping up. In international mathematics achievement tests we placed eleventh out of thirteen in calculus and twelfth out of thirteen in algebra.

As a nation, our economic leadership and competitive strength are under siege. In recent years, we have become painfully aware of competition from abroad in markets previously dominated by U.S. manufacturers. Today, I would like to focus on why it is absolutely essential to the economic well being of this country that the Hispanic community participate in the high technology arena.

Small business is widely believed to be highly innovative and responsible for many of the new products and processes introduced into the economy. One such example, was the development of the user friendly computer, the Macintosh, by Steve Jobs of Apple Computer, whom we all know started in his garage. The creation and growth of small high tech companies will contribute to the nation's ability to develop and implement new technologies. There are too many examples, where the U.S. has developed the technology, only to license the technology to a foreign country, which then in turn, sells the technology back to us in form of laser disk players, videorecorders and videocameras.

For decades, the federal government has tried and implemented countless programs to integrate members of minority and disadvantaged groups into the mainstream of our system, yet the results are not encourageing. Over 90%

of the newly created small MBE/WBE businesses fall in the non high tech category, while start up businesses in the high tech category comprise 10% at best. Those companies that venture into these areas are confronted with the complexities and the ideosyncracies of dealing with a very complex bureaucracy. The paradox is that those that can comply with the federal rules, complexities and requirements are the ones that need the help less than the ones that the system by definition serves.

The situation is further worsened by the fact that the largest client of engineering services is not fulfilling its' mandate. According to a recent NALEO report, Hispanic 8(a) firms received less than 0.6% of the total contracts let by federal procurement. By law, Congress set aside 5% of all federal contracts for minority 8(a) firms, yet four years later, the Department of Energy, the largest federal employer of engineers and scientists only awarded 0.2% of its total contracts to Hispanic 8(a) firms. Congressman's Torres obnibus plan is a step in the right direction and we support the enforcement of this plan.

Federal agencies are not the only ones undercontracting with Hispanic firms. To cite an example, let me mention the case of EDS in Texas, a subsidiary of General Motors and ATCI, an Hispanic high tech start up firm in Dallas, Texas. Upon learning of EDS's capture of a major federal contract, ATCI approached EDS with a capability statement, obtained MBE certifications and implemented policies and procedure to meet and exceed EDS requirements. A visit was promised to visit the ATCI site in mid-September, but EDS never showed up nor bothered to contact ATCI with any explanation. So ATCI made some substantial investments to meet EDS contracting requirements, but were denied the opportunity to bid on any work for EDS.

High tech is sometimes described as high risk for the following reasons. A high tech manufacturing firm is capital intensive, requiring sophisticated equipment to produce the high tech product. Quality control procedures and measurement standards must often be created for brand new products. Then there is not guarantee that the product you developed as a prototype will, in fact, be reproducable on a mass production basis. On the other hand a high tech service firm is less capital intensive, but is more labor intensive. For example, in order to prepare a technical bid for a $5 million dollar contract, may require $30-50,000 of engineering and administrations costs to submit the proposal with no gurantees of winning the contract.

Currently, the majority of 8(a) Hispanic high tech firms are involved in ADP - automatic data processing, and very few Hispanic firms are involved in cutting edge technology. One exception, is Applied Sciences Laboratory based in Albuquerque, New Mexico. Under the leadership of Dr. Richard Jimenez, President this six month old company is a research and development company which develops spacecraft technology for the U.S. airforce.

One of Dr. Jimenez' concerns is the future enforcement of the SBA requirement of requiring two years of contract history before a business qualifies for the 8(a) program. Businesses which are certified as 8(a) contractors are allowed to compete for contracts which are set aside for 8(a) competition. Small start up disadvantaged businesses are excluded from competing on 8(a) set-aside procurements. The start up phase is often the most difficult for new businesses and it seems that the benefits of the 8(a) program would be of most benefit during this period.

In addition, exclusion from 8(a) competition further compounds the difficulties a small start up disadvantaged high tech firm faces. Although there may be some very good reasons for the two-year contract performance period, perhaps an alternate certification might be allowed for those companies deemed technically competent to perform the work of a particular contract.

The development of leading-edge technical challenges have traditionally been undertaken by university research center or large, highly qualified contractors. The aerospace industry requires the development and integration of sophisticated technologies and the use of numerous technical specialists. Currently, the participation by small disadvantaged business (SDB) has been negligible. The assistance of the SBA to more forcefully implement existing small disadvantaged subcontracting plans would be an aid to qualified small disadvantaged businesses. Prime contractors should be encouraged to team with SDB during all phases of the program from the proposal preparation phase and throughout the lifetime of the contract.

Small high tech R & D firms face further disadvantages because research and development are expensive activities that require firms to commit substantial resources over extended periods of time and to assume the risk should the investment not prove profitable. The U.S. still spends more on R & D than Japan, West Germany, the United Kigndom and France put together, but Japan and West Germany have pulled ahead of the U.S. in terms of the R & D expenditures as a percentage of GNP.

The National Science Foundation and other federal agencies have a modest grant program (SBIR) to encourage small technology firms to conduct innovative high risk research on important scientific and technical problems that could have significant public

benefit if the research is successful. Yet, we are not aware of any significant grant money to high tech firms in the Hispanic community.

As we enter the decade of the 90's there are three major areas of opportunities for small high tech businesses. The first area is environmental consulting, mitigation and remediation. Over the last decade, this industry has grown to over $20 billion in revenues per year.. Again, the participation of Hispanic owned firms in this arena is miniscule. As environmental issues continue to gain attention in the international arena, the U.S. could be well positioned to sell it's technical expertise. That is, if there is sufficient environmental expertise developed in the U.S. to solve our domestic problems as well.

The second area of opportunity is is technology exchange and partnerships with Mexico and Latin America. To that end, the Society of Hispanic Professional Engineers has hosted five international engineering conferences to date with the purpose of bringing together small businesses in the U.S. together with their counterparts in Mexico and Latin America with the purpose of establishing business partnerships in the technology related fields.

The third area of opportunity has the biggest payout in terms of U.S. global market competitiveness. This area is the transfer of technology from the federal government to private industry. Our national labs like Sandia, Los Alamos and Fermi are some of the world's most elaborate and foremost research facilities. There are tremendous opportunities for entreprenuers that can act as "transfer agents" to determine if it is appropriate to transfer a certain technology to the market, at what price and on what timetable. If we don't take our research discoveries to

the marketplace, our foreign competitors are more than happy to do it for us.

To help stimulate the development of Hispanic owned high tech firms, we have several recommendations as follows:

1) Establish a requirement that all federal agencies and recipients of major federal contracts compile data on the dollar amount of contracts that are let to Hispanic owned firms and what percent of the total this represents. Every agency should be held accountable for the 5% mandated by law.

2) Subcommittee hearings such as this should continue on an ongoing periodic basis to assess progress or lack thereof.

3) This comittee should request a study by the Office of Management & Budget to review the overall statistics for Hispanic employment and procurement in the federal agencies.

5) Support SHPE proposals such as "America One" that has been submitted to the National Science Foundation (NSF). "America One" is a nationwide ~~and~~ collective education outreach program designed to inform and motivate students, parents, and teachers so as to increase the number of engineering graduates in the Hispanic community.

6) The Small Business Innovative Research Progam (SBIR) Act of 1982 required major federal agencies to set aside 1.25% of an agencies' research budget for SBIR. NSF, DOD, DOE and all of the major agencies should be encouraged to include Hispanic R & D firms for SBIR funding. At the present time there is no data collected that would tell us

the percent of Hispanic owned firms which have received funding.

7) Provide the development of "linking" programs which require that banks which receive large federal deposits provide loans to minority small business applicants in their community. (Reference: Thesis paper presented by Eduardo N. Luna, M.P.A., U.T. Austin, August 1989).

8) The SBA should establish an evaluation and monitoring system to assess the performance of 8(a) contractors. Currently the failure rate of 8(a) firms once they leave the program has been approximated to be between 30% to 40%. Ongoing studies must be conducted to understand why the high failure rate.

9) Raise the self-esteem of our youth, by promoting the important technical contributions that have been made by role models such as Dick Otero who founded a high technology company in 1979 with one employee and has now grown to a company of 900 employees and over $60 million in revenues. Launch a national media campaign highlighting the accomplishments of these individuals through White House ceremonies and national publicity.

Our participation in the high tech arena implies that we are a player on the field. In a global competitive market, it makes sense that we have as many U.S. players on the international field to compete with our economic competitors. Yet in reality, the Hispanic community has only been issued a uniform and is sitting in the dugout. The next Fernando Valenzuela could be sitting in the dugout right now in East L.A. or the next Jose Conseca could be sitting out in some ward of New York. We need to use all of our available resources, and treat every potential player as the most valuable player.

Some education initiatives:

Last year, although we represent 9% of the population, Hispanics received less than 2.7% of all engineering degrees awarded in the country. The reasons are many, but some of our recommendations to turn this around are as follows:

1) Eliminate the inequalities in our educational system. The federal government must take a more active role in ensuring that the distribution of funds is equalized among school districts. It is totally unacceptable that some high schools have access to the latest science equipment and state-of-the art computers while others cannot even afford to teach calculus and physics courses.

2) Provide support for community based organizations like SHPE which manage outreach programs to the Hispanic community like our ACE program which promotes education, and the importance of engineering and science competence in the labor market.

3) Establish innovative curriculum guidelines that will encourage the development of higher order thinking skills by use of manipulative and "hands-ons" type lessons. Encourage investigative and problem solving thinking skills through a cooperative learning approach among students and teachers. Don't encourage right and wrong answers but rather encourage the development of analytical and problem solving skills.

4) Encourage parental involvement by providing personnel that can speak their language and establish outreach programs for monolingual and undereducated parents. Sometimes parents don't actively participate because they may be drop outs themselves and may feel intimidated or under qualified to give advice to teachers and administrators regarding their child's education.

5) In higher education, establish a program that will encourage community college students to transfer to four year universities through automatic transfer programs, financial aid and other incentives. At colleges with more than 25% Hispanic enrollment, additional funds should be made available for recruitment, retention and curriculum enhancement as is now done with the nations historically black colleges.

Thirty years ago, this country made a commitment to put a man on the moon. The federal government passed the National Defense and Education Act which poured money into our schools to promote science and foreign language competency. That legislation was partly in response to our "race for space" with the Soviets. Now we need a similar commitment from the federal government in order to produce a work force qualified to fill the increasing number of technical positions in the labor force. This time, it is not only a matter of national pride but rather a matter of economic survival for the United States.

That concludes my testimony and I thank you for the opportunity to share my thoughts and concerns with you on the status of Hispanic high tech firms.

National Association of Latino Elected and Appointed Officials
...and the people who support them

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☑ 708 G Street, S.E.
Washington, D.C. 20003
(202) 546-2536
FAX (202) 546-4121

☐ 2300 West Commerce
Suite 204
San Antonio, TX 78207
(512) 227-0819
FAX (512) 229-1132

☐ 3450 Garnet Street
Los Angeles, CA 90023
(213) 262-6503
FAX (213) 262-6823

Testimony of Harry Pachon, Ph.D.
National Director,

National Association of Latino
Elected and Appointed Officials
(NALEO)

Before the U.S. House Subcommittee
on Environment and Labor, October 3, 1990

Good morning, Mr. Chairman, and thank you for inviting the National Association of Latino Elected and Appointed Officials (NALEO) to share with the Subcommittee findings of our most recent audit of the 8(a) program. As you know, the 8(a) program was established by Section 8(a) of the Small Business Act to assist minority-owned business enterprises in acquiring federal procurement contracts.

Every year since 1983 NALEO has analyzed statistical data on the 8(a) program, and each spring we publish an audit of 8(a) contracting with Hispanic-owned firms. Today I would like to share with the Subcommittee the findings of NALEO's 1990 audit of the 8(a) program, which looked at several aspects of 8(a) contracting with Hispanic-owned firms, both in 1989 alone and in the period 1983-1989.

8(a) contracting with Hispanic firms during the period 1983-1989 steadily increased in dollar amount until in 1989 contracts with Hispanic firms equaled more than $1 billion, with more than 800 Hispanic firms registered as 8(a) contractors. Nevertheless, NALEO's 1990 audit revealed significant discrepancies in the implementation of the program. I submit a copy of our 1990 audit to the Subcommittee for the record.

One of our interests in examining 8(a) is to compare contracting levels of the various federal contracting agencies. When we compared these agencies for fiscal year 1989 we found that there is a wide range of 8(a) contracting levels among the agencies.

For instance, in 1989 the U.S. State Department contracted 5.8% of all its procurement contracts with Hispanic 8(a) firms. The State Department was the federal agency that awarded the largest percent of all its contracts to Hispanic 8(a). At the other end of the scale was the Energy Department, which awarded only 0.2% of its contracts to Hispanic 8(a) firms.

8(a) contractors in effect pay a very dear price for the Energy Department's low 8(a) contracting levels. The Energy Department in 1989 was the second largest federal procuring agency, with an overall procurement level of more than $17 billion. Therefore, every tenth of one percent of Energy Department procurement that did not go to Hispanic 8(a) translated into more than $17 million in procurement that did not reach Hispanic 8(a) contractors.

On this theme I'd like to call your attention to the Defense Department, which in 1989 let 64% of all federal procurement contracts. In 1989 the Defense Department awarded 0.5% of its contracts to Hispanic 8(a) firms. This 0.5% is one-tenth of a percent lower than the overall federal average. If the Defense Department were to have awarded one-tenth of a percent more of its contracts to Hispanic 8(a) firms in 1989, $132 million more dollars would have reached Hispanic 8(a) contractors.

I would like to share with you now another aspect of agency participation in 8(a). NALEO's annual audits of Hispanic 8(a) have shown that levels of contracting with Hispanic 8(a) firms not only vary from agency to agency but within the same agency from year to year. For instance, from 1988 to 1989 the percent of all procurement devoted to Hispanic 8(a) increased by 33% at the Department of Health and Human Services, and by 276% at the State Department. On the other hand, Hispanic 8(a) as a percent of all procurement declined by 50% at the Department of Energy, and 63% at the Department of Justice.

I would like to call your attention at this point to another issue related to Hispanic 8(a) contracting, namely, the disparate trends in Hispanic 8(a) award levels in different states. NALEO's 1990 audit analyzed these trends in the nine states with large Latino populations: Arizona, California, Colorado, Florida, Illinois, New Jersey, New Mexico, New York and Texas.

In our audit we looked at the overall level of 8(a) contracting in these nine states over the period 1983-1989 and found that Hispanic 8(a) contracting in four states -- Colorado, Florida, New Mexico and Texas -- has increased significantly during the period. In three other states -- California, New Jersey and Illinois -- Hispanic 8(a) awards have increased moderately.

In our audit we note steep declines in 8(a) procurement contracts in the states of New York and Arizona. The decline in Arizona equaled a two-thirds drop in Hispanic 8(a) in that state between 1988 and 1989. A more precipitous decline in New York

has been evident since 1985. 8(a) contracting in New York in 1989 is only 13% of what it was 4 years earlier.

I would now like to turn now to the fourth and final aspect of 8(a) that I would like the Subcommittee to consider. Recently we decided to gauge the relationship between Hispanic 8(a) dollars and the size of the Hispanic business community in the 9 large Latino states that I mentioned earlier. Simply stated, among the states we found significant variations in the relationship between Hispanic 8(a) dollars and overall Latino business activity as measured by the number of Latino-owned business enterprises.

For instance, Hispanic 8(a) dollars in Florida in 1989 added up to approximately $800 per Latino business. However, in Colorado, Hispanic 8(a) amounted to nearly $16,000 per Latino business. Relatively low amounts of 8(a) dollars per Hispanic business are seen in precisely those states with the largest numbers of Latino-owned businesses. For instance, Califonia, Texas, Florida and New York are the top four states in terms of the number of Latino businesses, and it is these same four states that have the lowest ratio of 8(a) dollars per Hispanic business.

To conclude my presentation, then, I would point out four major trends in Hispanic 8(a) contracting during the 1980s:

1) Relatively low award levels at some of the largest federal procurers such as Defense and Energy.

2) Significant yearly fluctuations in award levels at some agencies, such as the Department of Housing and Urban Development.

3) Important variations in the amount of Hispanic 8(a) dollars awarded to contractors in different states.

4) Discrepancies among states regarding the ratio of 8(a) dollars per Hispanic business.

Thank you very much for this opportunity to share with you the findings of NALEO's 1990 audit of Hispanic 8(a) contracting. We look forward to assisting the Committee in its investigation of current trends among Hispanic-owned 8(a) firms involved in high technology research and development.

CTA
INCORPORATED

TESTIMONY OF DR. TOM VELEZ TO THE CONGRESSIONAL HISPANIC CAUCUS AND THE SUBCOMMITTEE ON ENVIRONMENT AND LABOR, OCTOBER 3, 1990

Good Morning,

I am Renee Montoya, Corporate Human Resources Manager for CTA INCORPORATED, and today I have the honor to represent Dr. Carmelo E. (Tom) Velez, President and Chief Executive Officer. Tom wanted to appear before you today because of his strong commitment to his heritage, and because he feels it is important that people of Hispanic background be positive role models. He is out of the country this week and asked me to be with you today to tell you about our company. Dr. Velez is a first generation American whose parents are from Ecuador. They immigrated to the United States in the late 1930's to New York City. Tom, as a youth, faced many of the same challenges inner city children face today; poverty, violence, inadequate school systems, parents who speak very little English, and cultural segregation.

He was able to see these adversities through with a love of learning and an extraordinary talent for the violin. As an adolescent, Tom received a scholarship to the Julliard School of Music. He attended for several years but decided to pursue other educational avenues. Tom received a BS in Mathematics from Iona College in New York in 1962, and a MS in Mathematics and Computer Science from Adelphia University. Later, after beginning his career as an Aerospace Engineer with NASA's Goddard Space Flight Center, he went on to acquire a Ph.D in Applied Mathematics from Georgetown University and a J.D., Magna Cum Laude, from the University of Baltimore.

He raised a daughter as a single parent, and moved to the Denver area to work with Martin Marietta in 1976. In 1979, Tom along with a fellow colleague decided to start their own business. CTA, or Computer Technology Associates as it was then known, was created. Work began in Tom's small townhouse. The first CTA asset was his old 1968 Pontiac Lemans. The Lemans, like Tom, was a survivor. In its 13-years of service as CTA's Limo it demonstrated its ability to provide unending and excellent service.

Tom is a Renaissance Man--a lover of classical music, an entrepreneur, totally dedicated to CTA and its members. His spirit and philosophy are part of every facet of our Company. Tom formed CTA 11 years ago with the objective of

becoming an industry leader in aerospace systems engineering. As a result of Tom's vision, CTA today enjoys a reputation for excellence combined with a remarkable record of leadership and performance. Starting with that wholly owned car as its only asset, CTA's 1989 revenues were approximately $89,000,000. Our customer base includes NASA, FAA, DOD and Department of the Interior. We are a leader in a number of technology areas including Avionics Systems, Space Systems, Simulation Systems and Command, Control, Communications and Information Systems. From an office in the home, to 13 offices nationwide, CTA has grown and is still growing.

We continue to have a compelling vision of excellence and contribution, despite today's economy, despite cutbacks, and despite the fact that CTA has just recently graduated from the Small Business Administration's 8(a) Minority Owned Set Aside Small Disadvantage Program, CTA is growing. This past week our company was awarded two contracts where we competed against several of the major players in the aerospace arena. This isn't a first. Almost three years ago, we beat an incumbent to win our first competitive business contract. Last year we established an office in Madrid, and we are now in the process of completing a venture that will give CTA 40 percent interest in a Spanish Company.

What does all of this mean, and what added role did Tom play? He learned the system. When we were accepted for the 8(a) program, Tom determined we would be the best 8(a) firm doing what we do. In addition, he learned everything there was to know about the small business arena. So much so that he has been teaching other minority business people the how to's and what for's of accessing and utilizing the small business administration programs to the best advantage. Although he has worked the 8(a) program well, he didn't wait until the last minute to have CTA bid competitively. Growing up on the streets of New York taught him a lot. To seize the opportunity, to anticipate, to make commitments to values--to live by them.

Tom's high expectations of the people who work for him result in a company where employees are members. They participate in the company in special ways. As this committee knows membership denotes comradery, choices, a sense of belonging to an exclusive society. This is the same atmosphere at CTA. Bureaucracy is kept to a minimum. There is an open-door policy, and most importantly, members have a stake in the company through an Employee Stock Ownership Program.

Today, this committee is honoring Hispanic Heritage Month. As an Hispanic and as a representative of Tom Velez and CTA, I can attest to his commitment for excellence. I can attest to his desire to share his drive and spirit. And I can attest that he usually gets what he wants. I say this in the most respectful way. He wanted a better life for himself, so he got an education. He wanted his daughter to have a loving home, so he kept her with him when he could have sent her to relatives. He wanted to do things better than other engineering firms were doing without the bureaucracy, so he started his own firm. He wanted to share his experiences so he taught the know how to friends. He wanted his company's members to feel a responsibility and a part of the company, so he started an Employee Stock Ownership Program. He is a man I respect. He is an American in the best sense of the word.

Testimony Before The Congressional

Hispanic Caucus and

The Subcommittee on Environment and Labor

Richard J. Otero,

Chairman and Chief Executive Officer,

RJO Enterprises, Inc.

October 3, 1990

My name is Dick Otero, and I am the Chairman and Chief Executive Officer of RJO Enterprises, Inc., which is headquartered in Lanham, Maryland.

I want to thank you for inviting me to testify this morning before such a distinguished panel, and on a topic of such urgency to the Hispanic community.

RJO Enterprises is currently the second-largest Hispanic-owned high technology company in the United States, and we will certainly soon be the largest such corporation.

We are at the forefront of innovative high technology for the 1990s and beyond. We provide productivity enhancement solutions in such areas as telecommunications, information systems, automated logistics and acquisition support systems, and electronics.

I am speaking this morning as a Hispanic entrepreneur who enjoys the vantage point of having directed the growth of my company from a $500 start-up 11 years ago to the $80 million-plus corporation that it is today.

I have grappled for many years with the very issues that the Hispanic Caucus and the Subcommittee on Environment and Labor are addressing in this forum.

It is a most unfortunate fact of life that Hispanics have been and continue to be effectively shut out of the technology and engineering professions.

This is certainly not a revelation for the members of this panel, because you are making an honest attempt to rectify an abysmal situation.

I trust that you, our standard-bearers in Congress, will not simply rely on the trials and failures of years gone by -- a reliance on that time-honored Washington tradition of merely throwing tax dollars at a problem in the hopes that it will go away.

I may surprise you at this point, in fact, by telling you that I belong to a minority group that is even smaller than Hispanic engineers.

I am a proud member of that infinitesimal minority that would suggest to you that Federal hand-outs, that bigger grants, that expanded budgets are not the remedies that we need to enhance high technology and engineering opportunities for Hispanics.

We have tried that for years, doing the same thing over and over again and expecting different results. That, I submit most respectfully, is one definition of insanity.

Further, as we all know only too well, this is hardly the time for anyone to appear before Congress in an effort to promote programs that would further exacerbate the budget deficit that threatens the entire nation.

Rather, I am here this morning to suggest a number of positive, long-term ideas for your consideration -- ideas that would require no new Federal monies, but which almost certainly would lead to increased high-tech opportunities for Hispanics.

Of course, each of you is well-versed in the "alleged" five percent set-aside programs for minority-owned businesses, especially those seeking to work on defense contracts.

You must be equally aware that these programs simply are not working.

Prime contractors do not honor the law of the land, in most cases, because Congress has not put sufficiently sharp teeth into that law, and procurement officials are thus not incentivized to implement the intent of that law.

But rather than punitive remedies, I would suggest that Congress enact legislation that would reward, remunerate, and recognize those procurement officials and prime contractors who abide by the law and who truly do ensure that minority-owned business enterprises realize their legally-constituted share of government contracts.

That, however, is only one solution, and it is a solution that addresses the consequences, not the root causes of statistics that show that Hispanics comprise less than one percent of all engineers in this country.

To begin curing the illness rather than the symptoms, we must have several initiatives that are fully endorsed by the Federal government.

Congress should enact legislation to provide income tax exemptions --- not credits, not deferments, but true exemptions -- for teachers of the hard sciences in those school districts that have high enrollments of Hispanics and other minorities.

Congress must act to establish magnet schools that focus on the hard sciences in areas that are heavily populated by Hispanics, such as California, Texas, Florida, New Mexico, New York, Illinois, and last but not least, Puerto Rico.

We do not have to go far -- just into Fairfax County, to read the success story of such schools as the Thomas Jefferson High School for Science and Technology -- which this year produced more National Merit Scholarship winners than any other school in the nation.

It is time to provide that type of stellar education to our young Hispanics who aspire to more rewarding lives in the high-tech mainstream of our economy and of our society.

And Congress must further address root causes by establishing what I will term life-cycle high technology programs that would encourage Hispanic successes from pre-natal care to the day they enter school, through post-graduate education and into their entrepreneurial pursuits in engineering and scientific fields.

Such a program must combine the best elements of government encouragement and the active involvement and financial support of our universities, our leading industrial concerns, and our network of philanthropic foundations to provide the solid infrastructure around which success can be built.

Congressional action in just those three areas, which aim at the very roots of the problems we are confronting today, would provide incomparable incentives for our Hispanic youth to pursue a lifetime of work that would return equal rewards to them and to our country.

I also would suggest to you that a number of initiatives can be taken, virtually immediately, that would break down some of the barriers to Hispanic success that have been erected within the Federal government bureaucracy.

First and foremost, our various government agencies must adopt what I have termed a "corporate success mentality."

We must imbue our Federally-mandated programs, such as P.L. 100-656, or the 8(a) reform legislation, and Section 1207 of P.L. 99-661, with the strategies and the sound planning that will allow these laws to effect the benefits and the incentives that they were designed to accomplish.

Without such strategic planning, we will continue to see such impediments to success as grossly restrictive size and economic disadvantage standards, reduced ability to finance business operations, and further delays in entering the 8(a) program.

Also, Congress must ensure to its fullest ability that such innovative and potentially far-reaching ideas as the Defense Department's Protege/Mentor Program are implemented on the widest scale possible, and without delay.

And finally, I would like to issue a challenge to each of you on this panel.

I am challenging the Hispanic Caucus, through your leadership and your commitment to your fellow Hispanics, to aspire to greater advocacy of these issues that are crucial to our very economic survival.

I challenge you to ensure that our Hispanic colleagues aspire to -- and achieve -- ever-higher levels of responsibility within Congress, within our various government agencies, and in the technical departments of every branch, agency, and commission of the Federal government, just as I challenge our great universities, the Stanfords, the MITs, the Cal Techs, to ensure that their doors open ever-wider to Hispanics who have the aptitude and the desire to learn from their vast storehouses of knowledge, without regard for their economic status.

And one final challenge. I challenge the members of this panel to devise a system to quantify our efforts and initiatives, to keep score on how we in the Hispanic community are doing, and to tell the world of our successes, frequently and openly.

In conclusion, I am the first to admit that much must be done to reverse the appalling lack of opportunities for Hispanics in the various engineering and scientific disciplines.

But we are the nation that landed on the moon. We are the nation that has fostered greater technological advancement in the past half-century than in all the preceding years of civilization combined. We are the nation that is renowned for our innovation, our ingenuity, our creativity, and our capacity for caring.

It should not be difficult to apply just a small portion of these virtues, these qualities, to ensuring that our young Hispanics are able to pursue the dream that is America.

Thank you for this opportunity to appear before you this morning. I would be most happy to elaborate on my suggestions or to answer any questions you may have.

TESTIMONY OF JACK PRIESTER

PRESIDENT

ARMSTRONG DATA SERVICES, INC.

Prepared for: Honorable Esteban E. Torres

Chairman, Small Business Committee

U.S. House of Representatives

Washington, D.C.

on

Problems New 8(a) & Other Minorities Face

In Procuring Federal Contracts

October 3, 1990

ARMSTRONG DATA SERVICES, INC.
1750 New York Avenue • N.W. • Suite 200 • Washington D.C. 20006

35-168 34

Good Morning Mr. Chairman. I am most honored that you have given me the opportunity to testify before your subcommittee today. First, let me commend you for holding this important hearing and second, for your leadership in not only the Latin American Business Communities but towards African American business development as well. Your effective advocacy of the entire minority business community sir is greatly appreciated.

On a more personal note, I want to take this opportunity to thank you for your past assistance and continued support for small companies like Armstrong Data Services, Inc. (ADS). I have spent hours working with your staff and found the time spent working with your Staff Director, Jorge Haynes, to be both enjoyable and productive. I sincerely hope and fully anticipate that we will continue to work together.

As you know, ADS is a customer-dedicated service organization, minority owned and managed, specializing in data processing, system design and development. We have enjoyed a successful operation since 1972 and established a reputation on micro and mainframe systems, while servicing commercial and military contracts.

This success is not magical, but is due to established formulae whereas:

- Plan To Succeed

  This consists of a detailed business plan but not so rigid that it can not be updated and changed depending on conditions and circumstances.

- Loyal and Dedicated Personnel

  Selection of key employees is essential. My staff is allowed to contribute depending on abilities and they are rewarded according to their efforts.

- Understanding Your Market

  Time must be taken to secure accurate assessments of clients' business needs and goals. Open lines of communication should be maintained with all customers, remembering that you must be flexible and supportive for your competitor is willing and ready, if given the chance.

- Dependability

  Reputation is judged by association. Therefore, ADS retains customer-dedicated professionals whose objective is the delivery of quality service in a timely manner and within cost.

We look forward to carrying this success of seventeen (17) previous years in the private sector, with our newly acquired 8(a) status, into the Federal Government marketplace. Certain guidelines established by the Business Opportunity Development Reform Act of 1988 have assured me that improvements are in the making. For example, from the start of the ADS application to selection into the 8(a) program, was not the 120-150 days you are so accustomed to hearing, but 94 days in total. I wish to recognize this diligent and dedicated effort of those Small Business Administration staff members in Region IX, without whose support this could not have happened.

OBSERVED PROBLEMS FOR NEW 8(a) COMPANIES

Observation:

Locating a procurement that may be passed to a competitor because the work to be performed is not in your region. The definition of local buys, being products or services utilized in one region, is a misnomer. I find it hard to believe that software written for submarines in a Jacksonville Naval Base cannot and will not be used in Bangor, Maine or some other naval base.

Recommendation:

Change the definition of national buy to apply to all procurements over $100,000 for professional services.

Observation:

The most significant reason for lack of participation by 8(a) and other minority companies in defense subcontracting is that most of us do not have the marketing depth to learn about major acquisitions during the development stages, when substantial subcontracting decisions are made.

Recommendation:

A program allowing larger government contractors to adopt new 8(a) firms or firms with minimal 8(a) contracts.

Observation:

Unlike most large contractors, 8(a) companies face continual obstacles in raising capital. Once accepted into the 8(a) program, obtaining management and additional expertise to market federal procurements for a substantial time is costly.

Recommendation:

Create program that will allow 8(a) companies to joint venture in a system that to market federal procurements while the procurements are in the conceptual stage instead of after they are published.

Incorporating these recommendations based on observations, as seen from a new 8(a) company, I feel, will advance the program tremendously. Again, I thank you for this opportunity.

TESTIMONY OF LUIS CASTRO-ORTIZ
OF THE BRONX VENTURE CORPORATION
BEFORE THE SMALL BUSINESS SUBCOMMITTEE
ON ENVIRONMENT AND LABOR
OCTOBER 3, 1990

Bronx Venture Corporation (BVC) is dedicated to the social and economic revitalization of the Bronx area community. BVC is a New York State not-for-profit corporaton (501-C-3) governed by a board of directors. BVC is under the aegis of the South Bronx Board of Trade which is comprised of area businesses, professionals, and civic leaders.

As a community-based economic development corporation, BVC's primary goal has been to attract, retain, develop, and expand job-intensive industry in the South Bronx.

As a community developer, BVC's objectives have been to increase housing options for low-income residents and to improve the quality of life through educational, cultural and recreational programs.

BVC's two-fold approach, to both economic and community development, reflects its awareness of the integrated nature of the problems faced by the South Bronx, and permits a demonstratively efficient and diverse use of resources. Consequently, BVC is able to address wide-ranging problems, such as lack of job opportunities, education and job training, deteriorated and declining housing, losses in retail and commercial activities, and cultural alienation.

BVC's overall objective is to alleviate the causes of poverty in the South Bronx community. This overall objective will be achieved by seeking to meet nine general objectives:

1. To provide permanent jobs for low-income members of the community.

2. To provide profit for reinvestment in the community which will benefit low-income people.

3. To achieve ownership of significant assets by the community.

4. To develop self-sufficient business ventures.

5. To provide support for additional community economic development activities.

6. To disseminate knowledge on the process of the community development corporation / equity investment process.

7. To develop effective training programs and upward job mobility for low-income people.

8. To establish public-private partnerships.

9. To establish credibility and positive visibility for BVC and the South Bronx community.

"HISPANIC-OWNED HIGH TECHNOLOGY COMPANIES AND THE CURRENT ECONOMIC ENVIRONMENT"

TESTIMONY

before the

SUBCOMMITTEE ON ENVIRONMENT AND LABOR

and the

CONGRESSIONAL HISPANIC CAUCUS

Presented by

Peter M. Theobald
Executive Vice President and
Chief Operating Officer
Comprehensive Technologies International, Inc. (CTI)

October 3, 1990

"HISPANIC-OWNED HIGH TECHNOLOGY COMPANIES AND THE CURRENT ECONOMIC ENVIRONMENT"

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Honorable Chairmen, and esteemed Members of the Subcommittee on Environment and Labor and the Congressional Hispanic Caucus, I am honored to appear before you today. I am Peter M. Theobald, Executive Vice President and Chief Operating Officer of Comprehensive Technologies International, Inc. (CTI), a minority-owned 8(a)-certified high technology company.

Your focus on successful Hispanic companies in the high tech arena at today's hearing is timely given the present economic challenges facing the United States. Hispanic-owned businesses have made great strides over the past few years in the high technology marketplace. In software development, engineering, high tech manufacturing, and telecommunications, just to name a few sectors, Hispanic enterprises and other minority firms have played an increasingly important role in technological innovation and the growth of our economy. The reason your deliberations are so important is that it is critically important the advancements of minority firms in high tech growth sectors not be eroded during the current economic decline nor as a result of legislative intervention. The erosion of this emerging resource would rob our economy and many of our communities of a necessary catalyst for helping put the U.S. economy back on track.

We recognize the need for our economic policymakers to act. How and when to raise taxes, and where and by how much to cut the Federal budget, are important issues requiring

careful deliberation. However, as these fundamental economic and political issues are debated, we ask that you take every opportunity to promote the continued growth and development of minority enterprises in the U.S. and refrain from actions that will in any way reduce the ability of these firms to play a major role in the U.S. economy.

By way of background, CTI is a Hispanic-owned company founded in 1980 by CTI's President and Chief Executive Officer, Celestino M. Beltran, and its Executive Vice President and Chief Operating Officer, Peter M. Theobald. CTI is a software development and professional services company specializing in electronic data interchange (EDI) software and high tech services in the areas of engineering, logistics, information systems, and telecommunications. CTI achieved sales of $19.6 million with a staff of 335 employees during its recently concluded 1990 fiscal year. In fiscal year 1991, sales of over $30 million and a staff of 500 are projected. This past year CTI was recognized as the second fastest growing company in the Mid-Atlantic Region by Washington Technology Magazine and as the second fastest growing Hispanic company nationwide by Hispanic Business. CTI's founders were also recognized by Inc. Magazine, Ernst and Young, and Merrill Lynch as Washington Region Entrepreneurs of the Year. Without doubt, this recognition has come as a result of an unending dedication to client satisfaction in all lines of business, and our development of cutting-edge software technology in automated medical claims processing and Electronic Data Interchange.

In the remaining time I have before you, I would like to provide a few recommendations for your consideration on how the Federal government can continue to promote the development of high technology minority firms in the current environment.

Recommendation One: Promote the 8(a) Program as a Key Tool in Developing Successful High Tech Minority Enterprises

For CTI, like all new companies, our start-up phase was difficult. This phase required management skill, an adequate capital base, quality products and services, and a skilled labor force, all of which were challenges to assemble. This period also required a lot of dedication and perseverance, and yes, a little luck. As a minority firm there were historical barriers to marketplace acceptance to confront. Fortunately, we were able to chart these difficult waters, thanks in part to help we received as a participant in the Small Business Administration's 8(a) Program.

CTI's participation in the 8(a) Program was immensely helpful in both the firm's development into a strong enterprise and our successful entry into the high technology marketplace. Without the support of the 8(a) Program it is quite possible CTI would have remained small and isolated from the high tech growth sectors of the economy. By granting CTI SIC codes in technology fields, CTI was given the opportunity to transition to the high tech arena. Had SBA rejected CTI's petition for high technology SIC codes, the company probably never would have become a successful high technology company. The 8(a) Program remains an excellent tool for developing minority high technology firms. The Program should be expanded as much as possible through the provision of administrative resources, positive legislative guidance, and any other means in order to gain maximum benefit from its ability to develop these high tech minority firms.

Recommendation Two: Eliminate SBA Restrictions on SIC Codes for 8(a) Program Participants

While CTI greatly appreciates the support we have received from the 8(a) Program, we believe the Program needs to more flexibly support entry into and expansion within the high tech marketplace. Unfortunately, it has become increasingly difficult to obtain approval of SIC codes from SBA. SBA has seemingly formed the opinion that 8(a) companies should be kept small.

Restricting access to SIC codes is the method by which the growth of the 8(a) firm is controlled. What is wrong with this philosophy is that a technology firm must achieve a certain size to have the resources to be competitive and continually able to invest in advancements in technology. Restricting the ability of firms to flexibly respond to changing market opportunities penalizes successful firms. To significantly enhance the successful entry into and expansion within high technology fields, SBA should remove all restrictions on the acquisition of SIC codes for Program participants.

Recommendation Three: Increase SIC Code Dollar Limits to Allow for Inflation Since the Original Ceilings Were Established

The concept behind the use of SIC code size standards was that small businesses and small and disadvantaged businesses would not be competitive until they achieved a certain size and resultant position in the marketplace. Such enterprises would be allowed to retain a competitive advantage until they grew up to these limits. SIC code size standards have not increased since 1972 meaning that 8(a) firms are graduated with significantly less market position than they had in 1972 as a result of inflation. For example, the size standard for SIC code 8711 in 1972 was $13.5. In 1987 when SIC codes were reviewed, the size standard was left at $13.5 million. If cumulative inflation over the period was 100%, then graduating 8(a) firms have only half as solid a market position as they did in 1972. To give graduating firms a fighting chance at competitiveness in an increasingly technological and competitive marketplace, all SIC codes for small business and small and disadvantaged business classifications should at least be raised to account for inflation since 1972.

Recommendation Four: Have SBA Define the Ideal 8(a) Company as One Without Restriction as to Size (as Long as It Is Within SIC Code Limitations) Nor Line of Business Progression

The Small Business Administration currently lacks a consistent definition of what they believe a successful 8(a) company to be. Some offices allow diversification and flexible growth into new market areas while most restrict growth and diversification through the control of SIC codes. This leads to uneven application of standard operating procedures and requires 8(a) participants to spend more time battling SBA than developing their businesses. If the SBA would clearly define and publicize objectives for a model 8(a) company, that restricted neither size nor progression into any line of business, there would be more successful graduates of the 8(a) Program. Why should the SBA arbitrarily decide how big a company should be allowed to get as long as the company is within size standard limits? And why should SBA determine through SIC code control what areas an 8(a) company should go into? As an example, during our prior petition for telecommunications SIC codes, a logical extension of our current lines of business, one SBA official told CTI they did not like 8(a) firms getting these codes because the firms get too big! Thus, it seems, the objective is to keep 8(a) firms small and unsuccessful.

Recommendation Five: Swiftly Pass and Implement the "Mentor-Protege Program" and Other Initiatives to Promote the Development of Strategic Relationships Between Minority Companies and Large Prime Contractors

The gap between small and minority firms and large prime contractors is significant. The "Mentor-Protege Program", wherein large firms would provide financial and management assistance to disadvantaged businesses to help them become effective subcontractors, would help close this gap and give disadvantaged businesses increased access to Federal procurements. We support this idea and CTI itself would appreciate the opportunity to be a participant.

Recommendation Six: Force Adherence to Federal Agency and Prime Contractor Goals for Contracting with Small and Small and Disadvantaged Businesses

As we all know, the Federal marketplace is becoming tighter all the time due to the deficit and a shrinking Federal budget. All members of industry should share in cutbacks evenly, be they small and disadvantaged businesses, small businesses, or large businesses. However, it has been such a struggle to gain opportunities for the small business and small and disadvantaged business communities, that it is easy to worry about whether the progress that has been made will be eroded within the current economic environment. It would indeed be sad if a "last hired, first fired" mentality set in and restricted budgets were used as a reason for not adhering to Federal agency goals for small and small and disadvantaged business contracting. Thus, we strongly recommend that all agencies be required to meet their contracting goals. We believe goals alone are not good enough. Only requirements with penalties will do in an environment where all are scrambling for resources.

Recommendation Seven: Change Federal Acquisition Regulations to Require That All Procurements Be Awarded on a Best Value Basis

One of the biggest problems in the efficient utilization of scarce resources in the public sector is how to get the most out of our tax dollars. As a country we have been talking for some time about how to work smarter and be more efficient with our resources. Unfortunately, when it comes to Federal procurement, we do not practice what we preach. In an effort to save resources procurements have increasingly been awarded to the low bidder, notwithstanding recent discussions about the hazards of such an approach. Every day we see contract buy-ins where bidders have been forced to bid so low just to compete that there is little chance of performing. Many companies bid to win and not to perform. Yet, contracting officers find it difficult to move

away from a low bid focus. Justifying anything other than the low bid is time consuming and difficult and will most probably get protested. The result is the Federal government buys ineffective products and services, and instead of working smarter we work "dumber".

The solution to the problem is to implement procurement guidelines that are exclusively oriented towards "best value" acquisitions. It is true it will be a challenge to define and implement such guidelines. However, the rewards are great as best value acquisitions should mean an actual reduction in spending over the long term.

Recommendation Eight: Create an Incentive Program to Foster Long Term Investment into Strategic Market Niches for the U.S.

As a high tech firm, CTI closely watches the capital markets for possible sources of investment to finance the often significant costs of developing new technologies. Having reviewed these markets for sometime now it has become obvious that U.S. capital markets are based on a thirst for short term returns. Venture capital companies, corporate investors, and individual venture capitalists are all driven to turn a significant profit within three to four years if not sooner. Many wish to invest in a technology, take it public, and sell out as quickly as possible. There is insufficient long term investment in technology in the U.S., and as a result, we have lost the ability to mature and perfect our technologies. We enter the market weakly and are quickly overtaken by foreign competitors. The Japanese, for example, have taken a longer term investment approach and are able to beat us in the marketplace, even in cases where we pioneered the technology but they improved on it through focused long term investment.

Until we learn to focus on long term investment in technology we should only expect short term success in the marketplace. At a higher level, jobs, income, and even our standard of living are at stake. Investors and companies will respond to this challenge if they are incentivized to do so. The U.S. should target key economic sectors and promote the necessary long term investment through the creation of an industry investment incentive program. Such a program should consider tax breaks, loan guarantees, and even public underwriting of private losses as methods of

incentivizing private investors and companies to invest in maturing and perfecting our technologies rather than focusing on short term returns.

In conclusion, I would like to reiterate my thanks to the Subcommittee on Environment and Labor and the Congressional Hispanic Caucus for inviting CTI to participate in today's hearing. I hope our brief recommendations will prove useful in your deliberations. I would also like to thank Congressman Esteban Torres for his leadership role in promoting the important technology field of Electronic Data Interchange (EDI). Through a team approach with government and industry in such areas, we can be successful in building a strong technology base for our economy while providing ample opportunity for Hispanic and other minority firms.

October 3, 1990

TESTIMONY
FROM

RAFAEL G. RIVERA
PRESIDENT
RESEARCH AND DECISION-SUPPORT GROUP, INC.

AND

HOMER GUERRA
PRESIDENT
CHRONOMETRICS, INC

It is an honor to provide testimony to Sub Committee on High Tech Opportunities for Hispanics.

There are several issues we would like to address regarding the start-up of a small High Tech business. Most of us involved in the initiation of a business are professionals with many years experience. The start-up of a business, however, requires much more than technical expertise and capability, it requires know-how in the business environment, a good understanding of the client, experience in management and finance, and most important, capital. Experience and assistance can be obtained in all these areas. However, it is the many administrative steps involved in the development of such a business that often presents a serious obstacle to the process of start-up, and become a substantial burden on the capital inputs necessary for start-up. It is this last item that we would like to address in this testimony.

The following are some examples of problems and hurdles encountered in initiating contracts, and are also reminiscent of problems previously encountered that have put excessive burdens on the finances of start-up firms in the recent past.

These problems fall into two different categories; obstacles that are encountered one time in the start-up process, and those that are reoccurring.

1. Closure on Contract Requirements: The approach of the contracting officers and technical monitors is to minimize the cost of a contract, and maximize the product expected from a contractor. But the methods used by most Government contract negotiators, either for their own personal motivations or for the benefit of the Government, are aimed at obtaining the best possible deal only, the contractor's interests not withstanding. Whereas an experienced firm with the capital back-up has the resources to negotiate a contract and withstand the delays these negotiations cause, a small start-up firm can lose hundreds of hours of staff time, and without the time or sophistication to finesse its position, the firm may be forced to accept a position that is not profitable, or withdraw from the bid entirely.

2. Pre-Award and Administrative Delays The start-up small business contractor has to contend with administrative pre-award delays that occur after the bidding process, but before the award is given, that are to be expected in dealing with the Defense Contract Administration Services and Management Area (DCASMA) and the Defense Contract Audit Agency (DCAA). The new firm must go through audits that, for example seek to examine the proficiency of a firms accounting systems, transportation (e.g. shipping methods), and quality control. This category of delays is often unanticipated by a new start-up firm. To the inexperienced contractor, these audits may cause additional costs and delays that further complicate the bidding process.

3. Post Award Administrative Delays The start-up small Business Contractors may anticipate the auditing the first progress payment by DCAA, and this may delay their initial progress payment as much as two or three months under the best of conditions.

These three examples represent obstacles that occur only once in the start up process, but they still can cause great difficulty to the start up firm.

Reoccurring problems include the following:

4. Assistance in Financing Although there is assistance available to help finance such projects, the process is not always amenable to a new start-up business, and it is often difficult to obtain the financing required that would allow the firm to grow rapidly to the critical mass of staff and revenue needed to become viable. Even with signed contracts in hand, banks are not interested in lending to companies without at least two-years experience and a demonstrated ability to make a profit.

5. Insurance and Benefits The cost of insurance and other benefits is disproportionatly high for a start-up business with a small number of staff. The system works against the start-up company.

While a large or established company can more easily absorb the additional costs created by these administrative steps, these obstacles put a disproportionatly greater strain on the capabilities of a new business. Hispanic Engineers are extremely well trained, experienced, and are extensively qualified to fulfill the Government's and others needs for High-Tech and Engineering services. However, as a minority group, there is lacking a history, or track record in private sector in America which is almost assumed as a pre-requisite for obtaining Government contracts.

The very process designed to insure the procurement of the best firm for the task may, at times inadvertently eliminate the very businesses which it seeks to attract.

NASA

National Aeronautics and
Space Administration

Washington, D C
20546

Reply to Attn of L:JJM:jl

NOV 19 1990

Honorable Esteban E. Torres
Chairman
Subcommittee on Environment
and Labor
Committee on Small Business
House of Representatives
Washington, DC 20515

Dear Mr. Chairman:

Thank you for inviting NASA to participate in the Subcommittee review of high technology activities conducted by Hispanic companies. In discussions with your staff, it was agreed that NASA would provide you with the following: (1) an overview of NASA's outreach efforts and the relative success Hispanic businesses have had in accessing NASA procurement opportunities; (2) statistics on the employment and progression of Hispanics in NASA; and, (3) a description of some of the major NASA educational outreach efforts focused on the Hispanic community. Enclosed, please find NASA's assessment of each of these issues.

If you wish to discuss this matter further, I would be pleased to meet with you or your staff.

Sincerely,

Martin P. Kress

Martin P. Kress
Assistant Administrator
for Legislative Affairs

Enclosures

NASA Outreach Efforts and Success in Obtaining NASA Procurements:

In FY 1990, NASA contemplates the award of $10.5 billion for various competitive and noncompetitive contracts with approximately $535 million being awarded to small disadvantaged businesses, which includes many Hispanic owned businesses. NASA does not maintain records that identify the award of contracts to Hispanic firms. As NASA budgets increase in the future, we project that NASA awards to small Hispanic owned businesses will increase markedly.

Today small disadvantaged businesses, including Hispanic owned businesses are bidding on and winning more than $90 million a year in competitive awards from prime contractors. For the most part, these are sophisticated, highly technical projects. Of the 8(a) and competitive awards to disadvantaged businesses in FY 1989, more than 75 % of the dollars were for services such as scientific and engineering, computer scientists and engineering support services, A&E services and a broad spectrum of technical requirements. NASA strongly encourages small disadvantaged businesses, including Hispanic businesses, to associate with majority owned firms in joint ventures to compete for larger contracts. Through joint ventures, these firms can participate in a manner that expands their capabilities. The goal is for such firms to eventually compete for any or all contracts on a stand alone basis.

The growth history of the disadvantaged program at NASA has been most productive. It has provided NASA and other agencies a reservoir of talent to meet our needs. We have an extensive outreach program in the small and minority community, such as conferences, workshops, articles and telecasts. The Agency is working closely with a number of Hispanic business Associations such as Latin American Management Association (LAMA) to create more opportunities for Hispanic owned businesses.

Employment and Progression of Hispanics:

Since 1974, the representation of Hispanic employees has increased from 1.1% to 3.3% of the total NASA workforce (as of August 31, 1990). The largest increase has been among the science and engineering occupations. Currently, more than 54% of NASA's total workforce are scientists and engineers. By contrast, 57% of the total Hispanic workforce at NASA are scientists and engineers. The NASA Astronaut Corps currently includes 3 (2.8%) Hispanics, 1 a female, out of 108 members.

TABLE
Hispanics at NASA by Occupations
6/30/74 - 8/31/90

Work Groups	6/30/74 #	6/30/74 %	8/31/90 #	8/31/90 %	Net Change
Total NASA Workforce	24854	(100)	24004	(100)	-850
Science and Engineering	109	(0.9)	453	(3.5)	+344
Professional Admin.	29	(0.8)	110	(2.5)	+ 81
Technican	45	(1.0)	66	(2.4)	+ 21
Trades and Labor	34	(2.3)	50	(5.8)	+ 16
Clerical	52	(1.5)	119	(4.1)	+ 67
Total Hispanic Workforce	269	(1.1)	798	(3.3)	+529

Exact comparable data is not available for Hispanics in the Federal workforce. By comparison with the data available, Hispanics in the Federal workforce during the period between 1974 and 1988 were as follows:

	11/30/74	9/30/88	
Hispanics in the Federal Workforce	73591 (2.8)	109566 (5.2)	+35975

HISPANICS WITH GRADUATE DEGREES (MASTERS AND DOCTORATES) IN SCIENCE AND ENGINEERING

As of 6/30/90, there were 3274 employees in science and engineering occupations at NASA with Masters degrees - 81 (2.5%) were Hispanics. Of the 1573 employees with Ph.D degrees, 20 (1.3%) were Hispanics.

MID AND GS/GM GRADE LEVEL GROUPINGS AND SENIOR LEVEL MANAGERS

As of August 31, 1990, 509 Hispanics represented 2.8% of all NASA employees at the mid and higher grade levels, including 6 (1.1%) in the Senior Executive Service. Hispanics have increased their representation in the supervisory and managerial ranks from 19 (0.5%) of June 30, 1974, to 60 (1.6%) on August 31, 1990.

	6/30/74 #	6/30/74 %	8/31/90 #	8/31/90 %	Net Change
GS/GM 11 - 13	119	(1.1%)	407	(3.6%)	+288
GS/GM -14 & ABOVE	36	(0.7%)	96	(1.7%)	+ 60
MANAGERS/SUPERVISORS	19	(0.5%)	60	(1.6%)	+ 41
SES	0	N/A	6	(1.1%)	+ 6

EDUCATIONAL PROGRAMS

NASA has an extensive variety of educational programs covering from kindergarten to post-doctoral levels and including teacher and faculty programs. Some of these programs are directed to the entire population, while others are targeted towards specific minorities.

The following are some programs that impact the Hispanic population primarily or to a great extent:

El Ingeniero - This is a summer, 6-week, intensive academic enhancement and intervention program for twenty students in grades 7-8 designed to ensure the better-than-average completion of math and science curriculum and the eventual pursuit of science and engineering careers.

Recruitment and Retention for Excellence in Engineering Program - This program is implemented by the University of New Mexico and is designed to increase the number of high achieving undergraduate minority engineering students from remote areas of New Mexico who are available to participate in NASA's Co-op Program and successfully completing their engineering education. As an adjunct to this program, there are interventions at the K-5 level in the city of Albuquerque and support of the state-wide MESA program.

Promotion and Awareness of Careers in Engineering (PACE) - PACE is designed to increase the number of minority youths preparing for engineering and technical careers. Using the Mexican American Engineering Society (MAES) Chapters on six university sites, student members work directly with minority youths in nearby high schools and junior high schools. MAES helps student members improve their college GPA's and retention, and identifies and disseminates graduate school information to interested students.

The Hispanic Mother-Daughter Project - This Arizona State University project focuses on eighth grade girls, building on the strong mother-daughter relationships intrinsic to Hispanic families.

Graduate Student Researchers Program-Underrepresented Minority Focus - This program provides fellowship support, up to $22,000 per year, for graduate level students in science and engineering, provided that NASA principal investigators at educational institutions add then to their research grants or contracts. Of a total of 115 students at 53 universities, 50 (44%) are Hispanics.

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